FIRST NATIONS REVENUE SOURCE RESEARCH

First Nations Financial Management Board

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EXECUTIVE SUMMARY

The FMB embarked upon the revenue source research in order to quantify the impact that the COVID-19 pandemic was having on Indigenous economies. It is estimated that First Nations' business revenue decreased by $142.3 million in the second quarter of the 2020 calendar year and a total decrease of $1.9 billion is forecast for the 2021 fiscal year. The absence of readily available trusted data of the kind contained in this report points to the need for the re-establishment of a First Nations Statistical Institute.

This revenue research has led to a better understanding of First Nation economies, particularly own-source revenues. While it is evident that most First Nations are making their annual financial statements publicly available, the information contained within theses statements is not presently being collected and analyzed. The data collected which has been presented in this report provides the best available estimate of the scope and breadth of First Nation economies in Canada. It is critical that this type of data is collected, to better inform policy decisions that impact the lives of First Nations citizens.

Based on the analysis of nearly 500 sets of annual financial statements, it is estimated that during the financial year ending March 31, 2019:

- First Nations in Canada recognized $13.6 billion in total revenue;
- First Nations generated $4.4 billion of own source revenue; and
- Gross revenue of $2.9 billion was generated by Government Business Enterprises and Partnerships controlled by First Nation governments.

The development of a First Nations Financial Reporting framework would create a means by which First Nations could create more comparability in their tracking of key financial indicators. Continued use of data visualisation software, such as that which has been utilized as part of this research and made available on the FMB's website, will help First Nation governments, their citizens and other stakeholders better understand financial and economic trends locally, regionally and nationally.

BACKGROUND

In the wake of the COVID-19 crisis, a joint letter was sent by the First Nations Financial Management Board ("the FMB"), the First Nations Tax Commission and the First Nations Finance Authority dated April 9, 2020 to the Ministers of Finance, Crown-Indigenous Relations and Indigenous Services to describe the impact that the resulting economic shutdown was having on First Nations and First Nations' businesses. It was determined, during the preparation of this letter, that while the FMB and the other institutions established under the *First Nations Fiscal Management Act* ("the FMA") have some data on First Nations who are scheduled to the FMA, the scope of this data was limited. Moreover, even less data existed for those First Nations who have not requested the services of an FMA institution. This lack of data on how First Nations contribute to the wider Canadian economy, in particular the amount and nature of own source commercial revenue streams being generated, underscores the need to reconstitute the First Nations Statistical Institute that was wound up in 2012[1]. In the immediate term, the FMB has conducted a large-scale research project which has provided numerous insights on the scope of First Nation economies in Canada. This research is concentrated on the collection, aggregation and analysis of individual revenue streams reported in the annual financial statements of First Nations. We anticipate future opportunities to combine this revenue information with relevant non-financial data to provide further insights on the positive impact that First Nations have on the Canadian economy as a whole. Additionally, we hope to identify correlations between economic development within First Nations, and positive non-financial indicators.

SCOPE OF RESEARCH

The scope of the research includes all First Nations in Canada who have made their 2018/2019 annual financial statements publicly available on the Indigenous Services Canada ("ISC") website[2] in accordance with the *First Nations Financial Transparency Act* ("the FNFTA"). The analysis is focused on the revenue data reported by each First Nation for the financial year ending March 31, 2019 (including the corresponding 2018 comparative period). Other publicly available data has been collected that provides further insight on these revenue figures. This other data includes whether the First Nation has chosen to become scheduled to the FMA, the recorded value of a First Nation's investment in any government business enterprises ("GBEs") / government business partnerships ("GBPs"), the business sectors in which a First Nation is participating and whether the Independent Auditor's Report accompanying the annual financial statements includes any qualifications, including any relating to the business activities of the First Nation.

[1] The First Nations Statistical Institute was created in 2005 under the *First Nations Fiscal and Statistical Management Act* and was subsequently wound up as part of the March 2012 federal government budget. The legislation was amended and renamed as the *First Nations Fiscal Management Act* in Bill C-38 *Jobs, Growth and Long-term Prosperity Act*.

[2] https://fnp-ppn.aadnc-aandc.gc.ca/fnp/Main/Search/SearchFF.aspx?lang=eng

METHODOLOGY

Population and Sample

The population used for this report includes all 579 First Nations in Canada that are defined as 'bands' under the *Indian Act*. This population was chosen to make use of as much publicly available information as possible. The sample used for this research consists of the 473 First Nations in the total population (82.6 percent) who had made their 2018/2019 annual audited financial statements publicly available on the Indigenous Services Canada website in accordance with the FNFTA as of September 11, 2020. The research will focus on the revenue data reported by each First Nation for the financial year ending March 31, 2019 (including the corresponding 2018 comparative period).

There were 478 sets of 2019 audited financial statements posted on ISC's website at the time of our review. In the Independent Auditor's Reports that accompanied these annual financial statements, one contained an Adverse Opinion and four contained a Disclaimer of Opinion. For the purpose of this research, the data contained in these five sets of annual financial statements have been excluded from the sample resulting in a chosen sample size of 473 First Nations. The results contained in this sample have been extrapolated to estimate the results of the entire population of 579 First Nations operating under the *Indian Act*. In the report the term 'actual' is used to represent the results of the 473 First Nations making up the sample, and 'extrapolated' is used to describe the estimated results for the 579 First Nations making up the population. The extrapolated results assume that the financial results of the 473 First Nations for which financial statements were available are representative of the remaining population.

Classifying the types of revenue collected

The revenue data obtained from the annual financial statements in the sample have been classified into categories that were chosen by the FMB. As shown in Table 1 below, the aggregated revenue data has been classified using 14 unique categories. The classification of each revenue item depends on how it is presented on the Statement of Operation and after considering any additional information disclosed in the accompanying notes to the financial statements. Where applicable, further internet research was performed to classify revenue sources as accurately as possible.

Table 1 Description of revenue categories used

Revenue Category	Description of what is included
Indigenous Services Canada ("ISC") Revenue	Grants and contributions received from Indigenous Services Canada.

Revenue Category	Description of what is included
Other Federal Government	Grants and contributions received from other federal departments and agencies such as Health Canada, Canada Mortgage and Housing Corporation, Fisheries and Oceans Canada, etc.
Provincial / territorial government	Grants and contributions received from provincial / territorial, municipal and local governments. This category also includes distribution received from the casino/gambling revenue sharing agreements between First Nations and respective provincial or territorial governments.
Not-for-profit organizations	Grants, contributions, and other revenue received from not-for-profit organizations such as First Nations health and education authorities, child and family services organizations, Aboriginal Head Start, social development authorities, employment and training societies, etc.
Tribal Council	Grants, contributions, and other revenue received from tribal councils.
Settlement	Compensation received relating to a claim or resulting from a court decision made by a First Nations. For example, lands claim, treaty land entitlement, agricultural benefit claim, etc.
Trust	Distributions or other income received from a separate trust. For example, distributions of investment income from a trust established by a First Nation.
Local Revenue	Revenue generated by a First Nation pursuant to a local revenues law under the *First Nations Fiscal Management Act* or property taxation by-law under the *Indian Act*.
Equity income from Investments in Government Business Enterprises and Partnerships ("GBEs" and "GBPs")	Revenue reported by a First Nation from its investments in government business enterprises and/or partnerships. Equity income from GBEs and GBPs is comprised of a First Nation's proportionate share of net income reported by the GBEs and GBPs which are accounted for in the annual financial statements using the modified equity method. Considered to be Own Source Revenue.
Consolidated business revenue	Business related revenue generated by a First Nation which are accounted for in the annual financial statements on a gross basis using the consolidation method.

Revenue Category	Description of what is included
Interest and portfolio investment income	Revenue generated from a First Nation's financial institution accounts, loan receivable balances or portfolio investments. For example, interest on cash balances and investment income earned from a First Nation's investment in marketable securities, bonds, etc.
Program rental income	Revenue generated as part of the delivery of a First Nation's services. For example, rental income received from a First Nation's members, facility rental income, etc.
User fees	Fees collected from a First Nation's programs and administration. This category was not limited to First Nations assessing Local Revenue.
Other / unclassified revenue	Any revenue stream that either does not fit into one of the other categories or cannot be classified based on the limited information contained in the annual financial statements and note disclosures.

Own Source Revenue

In order to quantify economic development and own source revenue, the revenue figures classified as "Equity Income from Investments in GBEs and GBPs" and "Consolidated Business Revenue" have been further analyzed. The predefined North American Industry Classification System ("NAICS") codes have been used to categorise individual commercial business revenue streams to ensure consistency within the data set. The classification also provide insight on the sectors of the Canadian economy to which First Nations are operating. Similar to the classifications in Table 1, each economic development revenue stream has been coded based on how it has been presented on the Statement of Operation and after taking into account any relevant information presented in the note disclosures accompanying the financial statements. In addition, internet research was performed to obtain further details on each First Nation's economic development revenue. The two-digit NAICS codes consists of 102 unique codes representing a variety of industries which have been used to present industries in which First Nations are participating.

The data classified as "Equity Income from Investments in GBEs and GBPs" and "Consolidated Business Revenue" represent First Nations' aggregate economic development revenue. The distinction between these two categories depends on how these business operations have been accounted for by the First Nation in the financial statements. Under Public Sector Accounting Standards ("PSAS"), a government must first determine whether an entity meets the criteria for classification as a Government Business Enterprise or Partnership. If a business does not meet the criteria, its financial transactions must be consolidated with the activities of the government reporting entity using the consolidation method (see glossary). If a business does meet the criteria, the government reporting entity must account for its net investment in a GBE or GBP using the modified equity method (see glossary). Under the modified equity method, the government's

proportionate share of the government business enterprise's earnings (or loss) is recorded in the statement of operation and as an adjustment to the investment balance. Because of the use of the modified equity method of accounting for GBEs, identifying and aggregating a single revenue source called 'equity income from government business enterprises' does not offer any meaningful insight on the variety and diversity of business revenue streams being generated by these GBEs.

In order to present further insights on GBEs and GBPs controlled by First Nations, a second set of data of total gross revenue of GBEs and GBPs was compiled. This gross revenue data was aggregated based on the information disclosed in the notes accompanying the financial statements included in the sample. Under PSAS, a First Nation is required to disclose condensed supplementary financial information[3] which includes total revenue generated by its GBEs and GBPs and the government's percentage ownerships of the GBEs and GBPs that are not wholly owned.

In summary, the primary set of data consists of:

1. Consolidated revenue by category as summarised in Table 1;
2. Consolidated economic development revenue classified by NAICS Codes; and
3. Consolidated gross revenue of GBEs and GBPs classified by NAICS Codes.

The classification of these revenues has been made based on the information presented and disclosed in the annual financial statements and by using professional judgement. As expected, there was a wide variety of revenue and funding sources; therefore, where applicable internet research was performed to find credible sources to obtain more information to increase accuracy of revenue classification.

In order to classify economic development revenue to a NAICS code as accurate as possible, internet research was performed on First Nations' economic development to gather more insights on their activities. Professional judgement was used to assign the NAICS code that best represented the economic activities based on available information.

Other / unclassified revenue

The preparation of annual financial statements requires decisions to be made on how to present aggregated information and totals including revenue data. While PSAS does set minimum presentation and disclosure requirements, the FMB has observed a diversity of practices in the application of these standards across First Nations within the sample. The level of aggregation or disaggregation and how transactions are grouped are unique to each set of financial statements. For this reason, the revenue category 'Other / unclassified' was needed to accumulate individual revenue streams that did not fit into the selected categories or which were not identifiable. The scope of this research project did not include any steps to collect additional information from individual First Nation management that would be needed to more accurately classify these revenue figures.

[3] Refer to par. PS 3070.60 *Investments in government business enterprises* in the Public Sector Accounting Handbook

FINDINGS AND ANALYSIS

This data is based on the collection and analysis of financial statement information derived from 473 First Nations located in all regions of Canada ("the Sample").

Extrapolated Annual Financial Results

Table 2 below presents the extrapolated aggregated annual financial results for the entire population. These results represent the arithmetic sum of total revenue and total expenses for all First Nations included in the sample and then extrapolated for the full population. While expenses were not the focus of the research, total expenses and surplus/deficit were collected from each set of financial statements as they are important indicators of financial performance.

Table 2 – Annual Results

Annual Results	2019 Extrapolated ('000s)	% of Revenue	2018 Extrapolated ('000s)	% of Revenue
Revenues	$ 13,591,516		$ 11,791,195	
Expenses	11,019,331		9,993,967	
Surplus	**$ 2,572,185**	**18.9%**	**$ 1,797,228**	**15.2%**

Aggregated Revenue by Source

Table 3 below presents the aggregation of the individual revenue streams of the Sample into a set of pre-defined categories. These categories have been developed by the FMB based on its experience reviewing the financial statements of hundreds of First Nations over the past nine years.

Table 3 – Total Revenue by Revenue Categories

Transfers	2019 Actual ('000s)	2019 Extrapolated ('000s)	% of Total	2018 Total ('000s)	2018 Extrapolated ('000s)	% of Total
Indigenous Services Canada	$ 3,851,808	$ 4,715,004	51%	$ 3,527,130	$ 4,317,565	57%
Settlement	1,287,052	1,575,482	17%	505,714	619,045	8%
Provincial / territorial government	926,105	1,133,646	12%	862,523	1,055,815	14%
Other federal government	905,620	1,108,571	12%	825,163	1,010,084	13%
Not-for-profit organization	393,737	481,974	5%	311,999	381,919	5%
Tribal Council	150,614	184,367	2%	148,094	181,282	2%
Total Transfers	**$ 7,514,935**	**$ 9,199,043**		**$ 6,180,624**	**$ 7,565,711**	
Own Source Revenue	**2019 Actual ('000s)**	**2019 Extrapolated ('000s)**	**% of Total**	**2018 Total ('000s)**	**2018 Extrapolated ('000s)**	**% of Total**
Consolidated business revenue	$ 1,622,666	$ 1,986,308	45%	$ 1,476,555	$ 1,807,453	43%
Other / Unclassified Revenue	1,133,519	1,387,542	32%	974,271	1,192,606	28%
Equity income from investment in GBEs and GBPs	254,405	311,418	7%	354,231	433,614	10%
Trust	196,454	240,479	5%	291,360	356,654	8%
Program rental income	128,919	157,810	4%	132,347	162,007	4%
Interest and portfolio investment income	121,749	149,033	3%	102,417	125,369	3%
Local revenue	67,614	82,767	2%	56,671	69,371	2%
User fees	62,999	77,117	2%	64,055	78,410	2%
Total Own Source Revenue	**$ 3,588,324**	**$ 4,392,473**		**$ 3,451,907**	**$ 4,225,484**	
Total Reported Revenue	**$ 11,103,259**	**$ 13,591,516**		**$ 9,632,531**	**$ 11,791,195**	

Some highlights and observations based on figures reported in the financial year ending March 31, 2019 and presented in Table 3 include the following:

- Approximately 17 percent (2018 – 19 percent) of total revenue for the Sample is from commercial business activity (i.e. Consolidated Economic Development Revenue or Equity Income from Investments in GBEs / GBPs).
- Approximately 0.6 percent (2018 – 0.6 percent) of total revenue for the Sample is from property taxes and other forms of local revenue assessed and collected under either the *Indian Act* or the FMA.
- Approximately 10 percent (2018 – 10 percent) of total revenue for the Sample is either reported using a variety of miscellaneous categories or simply cannot be classified based on the information available in the annual financial statements used.

As shown in the following table, total revenue is aggregated by Province and analysed on an average per First Nation basis.

Table 4 – Total Revenue by Region per Nation

Province	Total # of First Nations	2019 Actual Total Revenue ('000s)	% of the Total	2019 Average Revenue per Nation ('000s)	2018 Actual Total Revenue ('000s)	% of the Total	2018 Average Revenue per Nation ('000s)
AB	31	$ 1,357,293	12%	$ 43,784	$ 1,480,761	15%	$ 47,766
NS	12	416,991	4%	34,749	403,717	4%	33,643
QC	30	1,025,992	9%	34,200	992,191	10%	33,073
NB	13	417,524	4%	32,117	403,296	4%	31,023
ON	103	3,145,807	28%	30,542	2,018,452	21%	19,597
MB	40	1,185,261	11%	29,632	1,124,900	12%	28,123
NL	5	125,676	1%	25,135	126,454	1%	25,291
SK	58	1,131,741	10%	19,513	915,836	10%	15,790
PE	2	31,294	0%	15,647	28,720	0%	14,360
BC	158	2,184,971	20%	13,829	2,068,126	21%	13,089
YT	2	13,912	0%	6,956	10,502	0%	5,251
NT	19	66,798	1%	3,516	59,577	1%	3,136
Total	**473**	**$ 11,103,259**		**$ 23,474**	**$ 9,632,531**		**$ 20,365**

Some highlights and observations based on Table 4 include the following:

- The highest average revenue per nation was generated by First Nations in Alberta with an average revenue of $43.8 million per Nation (2018 - $47.8 million).
- First Nations in British Columbia generated the 3rd highest amount of total revenue of $2.2 billion or 20 percent of the total revenue; however, the average revenue per Nation in British Columbia was $13.7 million, the 3rd lowest of the provinces and territories.
- Total revenue generated by First Nations in Ontario increased by $1.1 billion or $11.1 million per Nation from 2018 to 2019. Based on our review of the breakdown of total revenue, this increase was primarily due to the settlement of the Williams Treaties, received by seven First Nations in Ontario.
- The variation in size of First Nations as well as the nature and scope of their own source revenue activities had a noticeable impact on the average First Nation revenue by province.

Own Source Revenue - Economic Development Revenue

Table 5 below presents the breakdown of total economic development revenue included in Table 3. The extrapolated total economic development revenue of $2.3 billion (2018 – $2.2 billion) is equal to the sum of "Consolidated Business Revenue" and "Equity Income from Investments in GBEs and GBPs" presented in Table 3.

Table 5 – Economic Development Revenue

Own Source Revenue: Consolidated Business Revenue + Equity Income	2019 Actual ('000s)	2019 Extrapolated ('000s)	% of Total	2018 Actual ('000s)	2018 Extrapolated ('000s)	% of Total
Unclassified Economic Development Revenue	$ 372,416	$ 455,875	20%	$ 333,129	$ 407,783	18%
Combination of GBEs in Various Sectors	314,866	385,428	17%	311,725	381,583	17%
Gasoline Stations	226,539	277,307	12%	197,778	242,100	11%
Amusement, Gambling, and Recreation Industries	203,986	249,700	11%	204,613	250,467	11%
Forestry and Logging	167,642	205,211	9%	98,374	120,419	5%
Real Estate	93,556	114,522	5%	123,188	150,794	7%
Fishing, Hunting and Trapping	84,353	103,257	4%	107,666	131,794	6%
Food and Beverage Stores	76,028	93,066	4%	89,916	110,066	5%
Utilities	50,418	61,717	3%	142,038	173,868	8%
Mining (except Oil and Gas)	46,652	57,107	2%	32,801	40,151	2%
Other 51 industries	240,614	294,536	13%	189,561	232,041	10%
Total	**$ 1,877,071**	**$ 2,297,725**		**$ 1,830,786**	**$ 2,241,068**	

Some highlights and observations based on Table 5 and analysis of the data include the following:

- Approximately 20 percent (2018 – 18 percent) of total business revenue for the Sample cannot be classified based on the information presented within the annual financial statements.
- These business revenue streams represent commercial activity that has been accounted for using the consolidation method and modified equity methods of accounting. In many cases, gross revenues have been presented separately from the direct corresponding expenses incurred to generate these revenues. The decision by a preparer of financial statements to report revenues from a business on a gross, rather than net, basis may have a material impact on the relative composition and breakdown of these revenue streams by NAICS code.
    - For example, gross revenue from retail fuel sales would not be representative of the profit that a fuel retailer would generate after accounting for the cost of fuel purchased and other direct and indirect operating costs.
    - In other cases, the FMB has observed that there is a diversity of accounting policies used within the Sample even within similar types of activities. For example, the accounting for gaming revenues often varies, being recorded on either a gross or net basis.
- Approximately 17 percent (2018 – 17 percent) of total business revenue was generated from a combination of entities in various sectors reported on an aggregated basis.
- The largest identifiable industry was Gasoline Stations at $277.3 million (2018 – $242.1 million) which represented 12 percent of total business revenue (2018 - 11 percent). Average revenue of $3.1 million was reported by 74 First Nations (2018 – average of $2.9 million).

- Based on the Sample, the Amusement, Gambling, and Recreation sector is mainly driven by the gaming industry (Casino, slot machine, bingo, etc.). During the 2019 financial year, the average gaming revenue reported by 80 First Nations was $2.6 million (2018 - $2.6 million).
- Based on the Sample, 91 percent of the Forestry and Logging revenue was generated in the Province of British Columbia (2018 – 75 percent). During the 2019 financial year, the average Forestry and Logging revenue reported by 81 First Nations across Canada was $2.1 million (2018 – $1.3 million)
- Professional judgement has been used to classify these revenue streams based on information disclosed in the notes to the annual financial statements supplemented with a limited amount of internet research.

Gross Revenue from Government Business Enterprises / Partnerships

Table 6 below presents the breakdown of total Gross Revenues from Government Business Enterprises / Partnerships included in Table 3. Gross revenue figures only include 2019 financial year due to the fact that the majority of the 2019 audited financial statements did not disclose comparative figures for the 2018 financial year.

Table 6 – Gross Revenue Reported by First Nation's GBE and GBP

GBE and GBP Gross Revenue Reported	2019 Actual ('000s)	2019 Extrapolated ('000s)	% of Total
Combination of GBEs in Various Sectors	$ 1,192,680	$ 1,459,961	49%
Forestry and Logging	185,111	226,594	8%
Unclassified Economic Development Revenue	171,734	210,220	7%
Gasoline Stations	142,607	174,566	6%
Amusement, Gambling, and Recreation Industries	112,403	137,592	5%
Heavy and Civil Engineering Construction	108,342	132,621	4%
Utilities	95,250	116,595	4%
Fishing, Hunting and Trapping	38,790	47,482	2%
Food Manufacturing	36,339	44,482	2%
Mining (except Oil and Gas)	35,342	43,262	1%
Real Estate	32,402	39,664	1%
Food and Beverage Stores	30,898	37,822	1%
Oil and Gas Extraction	30,544	37,388	1%
Other 37 Industries	208,157	254,806	9%
Total	**$ 2,420,598**	**$ 2,963,057**	

Some highlights and observations based on Table 6 and analysis of the data include the following:

- Approximately 49 percent of total business revenue was generated from a combination of multiple entities in various sectors reported only on a total basis. This was a common occurrence observed when a GBE controlled multiple subsidiaries operating several different businesses in different sectors.

Qualitative Analysis of Government Business Enterprises

Through our review of the financial statements (and anecdotally through other work completed by FMB), it was noted a majority of First Nations governments have an economic development department or function. The role of this department varies but FMB observed that there were three main roles that an economic development department within a First Nations government could take including:

- Traditional economic development whereby the department is there to create an economic environment where market activities will flourish;
- As a community economic development driver whereby the department identifies business opportunities and/or operates market-based businesses on behalf of the government (gas station, construction companies, etc.); or
- As an agent of the government to facilitate strategic opportunities with external corporations (utilities partnerships, commercial development joint ventures, impact benefit agreements) which eventually become separate legal entities, or to manage revenue, equity sharing, or impact benefit in any resource extraction or development projects.

In addition to having an economic development department, many First Nations have separated out their GBE economic activity from the government umbrella for political and liability reasons. There is a variety of ways that this was observed including the following:

- A separate legal entity, generically known as Aboriginal Economic Development Corporations, which acts as a management and/or holding company for their GBEs;
- Investments in partnerships or joint ventures, where the First Nation does not control the business entity;
- Businesses held within trusts; and
- Shared economic development through Tribal Councils.

Solely basing our research on publicly available financial statements, it is difficult to ascertain the scale and scope of GBEs utilized by the First Nation governments. The ability to measure the effectiveness of GBEs and their financial contribution to First Nations is often obscured by accounting policy decisions and presentation requirements. For example, based on GBEs that are accounted for using the modified equity method, we determined that net profit margin and return on investment were both approximately 11 percent as shown in Table 7 below. However, net income from GBEs and GBPs is merely First Nations' net equity income recorded on an accrual basis of accounting, and consequently, it does not represent actual cash transfers from GBEs to the First Nations. These transfers can be reported in several different ways, or earnings may remain within the GBE for future opportunities. As a result, we couldn't measure the extent to which GBEs have subsidized First Nation government programs, services and interests.

Table 7 – Return on Investment of GBEs under Modified Equity Method

GBEs and GBP	2019 Extrapolated ('000s)	%
Gross GBE and GBP Revenue	$ 2,963,057	
Net income from GBEs and GBPs	311,418	
Net profit margin		11%
Investment in GBEs and GBPs	2,719,595	
Return on Investment		11%

While all levels of non-indigenous governments in Canada use GBEs similar to First Nation governments, the objectives are vastly different with federal, provincial, and municipal governments since their GBE are "often an extension of the government fiscal policy[4]". First Nation governments are using GBEs to meet a more primary need for funding their basic programs and services provided to their citizens.

[4] Statistics Canada, *Canadian Government Finance Statistics* https://www150.statcan.gc.ca/n1/pub/13-607-x/2016001/38-eng.htm

In Comparison with Preliminary Extrapolated Revenue Data

As shown in Table 8 below, the preliminary extrapolated revenue data was based on a sample of 42 First Nations (after normalization) as reported in the presentation published by the FMB on April 9, 2020. The preliminary revenue data was extrapolated based on the total estimated population of 630 First Nations whereas the updated extrapolation included in this report was based on 579 *Indian Act* First Nations as confirmed during the research. In order to increase comparability, the preliminary revenue data was adjusted to be extrapolated based on 579 *Indian Act* First Nations.

Table 8 – Adjusted Preliminary Extrapolated Results versus Final Extrapolated Results

	Preliminary Result Extrapolated based on 579 *Indian Act* First Nations (42 Samples) ('000's)		Final Result Extrapolated based on 579 *Indian Act* First Nations (473 Samples) ('000's)	
	2019	2018	2019	2018
Transfers				
Indigenous Services Canada	$ 5,667,429	$ 5,604,989	$ 4,715,004	$ 4,317,565
Settlement	-	-	1,575,482	619,045
Provincial / territorial government	807,635	720,076	1,133,646	1,055,815
Other federal government	1,031,640	864,675	1,108,571	1,010,084
Not-for-profit organization	-	-	481,974	381,919
Tribal council	-	-	184,367	181,282
Total Transfers	**$ 7,506,704**	**$ 7,189,741**	**$ 9,199,043**	**$ 7,565,711**
Own Source Revenue				
Consolidated business revenue	3,900,364	3,785,626	1,986,308	1,807,453
Other	1,640,622	1,524,509	1,387,542	1,192,606
Equity income from investment in GBEs and GBPs	359,540	429,823	311,418	433,614
Trust	-	-	240,479	356,654
Program rental income	-	-	157,810	162,007
Interest and portfolio investment income	-	-	149,033	125,369
Local revenue	340,580	225,843	82,767	69,371
User fees	-	-	77,117	78,410
Total Own Source Revenue	**$ 6,241,105**	**$ 5,965,801**	**$ 4,392,473**	**$ 4,225,484**
Total Reported Revenue	**$ 13,747,810**	**$ 13,155,542**	**$ 13,591,516**	**$ 11,791,195**

Some highlights and observations based on Table 8 and the comparison between preliminary and the final revenue source research results include the following:

- The preliminary estimate of 2019 total revenue based on the financial results of a sample of 42 First Nations was 1.1 percent higher than the final result based on a sample of 473 First Nations.
- It was noted that there were no recipients of the Williams Treaties settlement included in the initial sample of 42 First Nations. If the Williams Treaties settlement of $1.1 billion had not been recognized by First Nations in 2019, the preliminary estimate would have been 10.0 percent higher than the final result.

- The estimate of 2018 total revenue using a sample of 42 First Nations was 11.6 percent higher than the estimate based on a sample of 473 First Nations.
- The final revenue source research results include additional categories of revenue which were not segregated during the preliminary revenue source research phase. These revenue streams are reported as $nil in the preliminary research result.
- Total amount of revenue received from Federal and Provincial governments, not-for-profit organizations and tribal councils are consistent throughout the research. As discussed in an earlier section, the 2019 settlement amount was higher due to the settlement of the Williams Treaties received by certain Ontario First Nations.

LIMITATIONS AND CHALLENGES

There were several limitations and challenges identified prior to commencing this research project. However, it was determined that despite these limitations, there were still valuable insights to be gained by completing the work.

Incomplete data source

The data upon which the research was based is limited to only the annual financial statements which have been made publicly available by First Nations under the FNFTA. As of September 11, 2020, the 2018/2019 annual financial statements for 101 of the 579 (17.4 percent) First Nations making up the population had not been published on the website of ISC. This may be because the audit of these annual financial statements had not been completed or because the First Nation has chosen not to publish their annual financial statements notwithstanding the requirements of the FNFTA.

Reliability and accuracy of financial data

As described earlier in this report, five sets of annual financial statements that were accompanied by Independent Auditor's Reports containing either an adverse opinion or a disclaimer or opinion were excluded from the sample and our analysis as we deemed the financial information to be materially unreliable. Financial statements upon which the auditor had issued a qualified opinion have been included in the sample, but no attempt has been made to adjust any of the data based on the reasons disclosed for these qualifications. 133 of the 473 (28 percent) sets of financial statements making up the sample were accompanied by an Independent Auditor's Report containing a qualified opinion. The impact of these qualifications has not been quantified.

Incomplete business revenue information

The information disclosed in the annual financial statements regarding business operations varies greatly between First Nations owing to differing legal business structures, nature of operations, and accounting policy and disclosure choices. For example, some First Nations disclose the nature of their business operations within the notes to their annual financial statements while others do not. In some cases, the results of multiple businesses, potentially operating in very different sectors, are combined. Lastly, any separate annual financial statements of these business enterprises are prepared using a different basis of accounting than what is used to prepare the annual financial statements of the First Nation[5]. These separate financial statements are not usually publicly available, and none were used as part of this research.

[5] From past reviews, the FMB has observed that most GBEs / GBPs that prepare their own separate annual financial statements do so using Accounting Standards for Private Enterprises ("ASPE"). First Nation governments prepare their annual financial statements using Public Sector Accounting Standards which differ from ASPE in many respects.

Uncategorised revenue streams

The FMB was unable to categorise some revenue streams for two reasons. The first reason is due to the wide range of uniquely named revenue line items presented in the annual financial statements included in the sample. In an effort to limit the number of unique categories to a useful number, it was necessary to aggregate some of the less frequently used revenue streams or business activities as 'Unclassified'.

The second reason was due to the frequent decision by the preparers of financial statements to describe one or multiple revenue streams as 'Other', 'Miscellaneous' or similar. In some cases, these unclassified revenue figures were very significant in their amount relative to total revenue for the First Nation. The FMB did not request the participation of First Nations in classifying this information or request the necessary additional information that would be needed to do so.

Use of professional judgement

Professional judgement has been applied in the categorization of business revenue streams and the selection of NAICS codes. This judgment has been informed, to the extent possible, based on additional internet research.

Difficulty in reconciling funding amounts

Attempts have been made to assess the reasonability of total aggregated ISC revenue which was recognized by First Nations and presented in this research against transfer payments reported in ISC's annual financial statements[6]. We have identified several reasons why the amounts may differ. Firstly, the extrapolation in this report is based on 473 First Nations who made their financial statements publicly available on ISC's website. This extrapolation can only serve as an estimate of the revenue which would be recognized by all First Nations who are funded by ISC. Secondly, within its significant accounting policies, ISC notes that transfer payments are recorded as expenses when authorization for the payment exists, and the recipient has met the eligibility criteria. This created a timing difference for some First Nations which may defer revenue when stipulations relating to the transfers exist that meet the definition of a liability. Thirdly, there were some instances noted in which First Nations received ISC funding which was recognized as revenue by not-for-profit entities that were not consolidated within the First Nation's financial statements. Examples included primary and secondary education, post secondary, and family support.

[6] Indigenous Services Canada Financial Statements for the Year Ended March 31, 2019 (Unaudited), Note 16 Segmented Information.

COVID-19 IMPACT

In the wake of the COVID-19 global pandemic, the Canadian economy has been greatly impacted by the economic shutdown and measures taken to reduce the spread of disease. Statistics Canada[7] has reported that Canadian real gross domestic product ("GDP") declined by 11.5 percent in the second quarter of 2020 calendar year due to COVID-19. If expressed at an annualized rate, Statistics Canada reports that annual real GDP would contract by 38.7 percent. As shown in Table 9 below, if we apply the same contraction at Statistics Canada's rates, the First Nations' business revenue would have decreased by $142.3 million in the second quarter of the 2020 calendar year and a total decrease of $1.9 billion is forecast for the 2021 fiscal year[8].

The impact of COVID-19 to First Nation owned businesses may be greater than the impact reported by Statistics Canada. Based on a recent COVID-19 Indigenous Business Survey conducted in April 22-29 by the Indigenous Business and Investment Council[9], 70 percent of the total participants anticipated that their business revenues would drop by 50 percent or more. As shown in Table 9 below, if First Nations' business revenues decreased by 50 percent, we anticipate a total decrease of $2.5 billion amongst all First Nations.

Table 9 – COVID-19 Impact

	2019 Extrapolated ('000s)	Anticipated Q2 Impact (-11.5%) ('000s)	Anticipated Annualized Impact (-38.7%) ('000s)	Anticipated Annualized Impact (-50.0%) ('000s)
Gross GBE and GBP Revenue	$ 2,963,057	$ (85,188)	$ (1,146,703)	$ (1,481,529)
Consolidated business revenue	1,986,308	(57,106)	(768,701)	(993,154)
Total Economic Development Revenue	**$ 4,949,365**	**$ (142,294)**	**$ (1,915,404)**	**$ (2,474,682)**

OPPORTUNITIES FOR FUTURE RESEARCH

Based on the analysis of the data, and after working with the source annual financial statements included in the sample, the FMB has identified a number of questions that could be addressed in future research.

[7]Statistics Canada, Canadian Economic Dashboard and COVID-19 https://www150.statcan.gc.ca/n1/daily-quotidien/200828/dq200828a-eng.htm

[8] Fiscal year starting from April 1, 2020 to March 31, 2021.

[9] Indigenous Business and Investment Council, IBIC COVID-19 Indigenous Business Survey https://www.bcibic.ca/wp-content/uploads/2020/05/IBIC-COVID19-Indigenous-Business-Survey-Final-Report-2020504.pdf

1. **What are the root causes contributing to the high frequency of qualifications contained in the Independent Auditor's Reports attached to annual financial statements of First Nations?**

   During this research project the FMB observed that 28 percent of financial statements included in the sample were accompanied by an Independent Auditor's Report containing a qualified opinion. Based on previous research, the FMB has learned that in comparison, 3 percent of municipalities in Ontario received qualified audit opinions, while 21 percent of provincial governments receive a qualified audit opinion in any given year. The root causes contributing to this significant difference should be researched so that any systemic barriers or capacity needs can be more clearly identified.

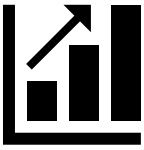
2. **What accounting and auditing challenges are First Nations currently facing?**

   The FMB would welcome an opportunity for future discussions with the newly appointed President and Chief Executive Officer of CPA Canada as well as the incoming Auditing and Assurance Standards Board Chair on accounting, reporting and auditing issues facing First Nations. Further collaboration and research could also be undertaken with AFOA Canada. Obtaining a clear understanding of the root causes of the high frequency of qualified audit reports within the First Nations sector would be one important body of research that could lead to further insights.

3. **What does year-over-year data indicate about trends in First Nation economies?**

   Additional years of financial statements would be necessary to provide sufficient data to form meaningful trend analysis. The continuation of revenue research in the future would provide a basis for trend analysis of First Nations economies. Financial information for the years ended March 31, 2020 and 2021 will be especially meaningful in quantifying the impact of COVID-19 and the resulting shutdown.

Data visualisation



In order to provide more data analytic capability and to allow users of this research to better visualise the results, the FMB has made use of data visualisation software. This software has been used to present, sort and filter the aggregated data in a variety of ways. The data included in the sample will be shared electronically using the FMB's web site in a manner that will allow other users to run their own queries and compile different visualisations.

RECOMMENDATIONS

1. Reconstitute the First Nations Statistical Institute

The completion of the revenue research project has highlighted the need for the First Nations Statistical Institute to be reconstituted under the FMA. The lack of available data of the kind presented in this report demonstrates the need for a permanent, trusted institution that will collect, retain and analyse First Nation government statistical information on a continuing basis in order to inform fiscal policy. An alternative would be to amend section 49 of the FMA to provide the FMB with this mandate.

Beyond the collection and analysis of the information from the annual financial statements of First Nations, there is a need to engage with First Nations about their business activities and economies. Statistical data related to non-financial outcomes would need to be measured and assessed to determine how these indicators correlate with improved economic results.

The need for First Nations' data is thoughtfully explored in the report "Strengthening the Availability of First Nations Data"[10] prepared by QMR Consulting for Indigenous Services Canada and the Assembly of First Nations. This report also addresses many important considerations for the establishment of an independent, First Nations-led Statistical institute.

2. Develop a First Nation financial reporting framework

We recommend that a working group be established with First Nation government finance officers to develop a classification system that could be used when reporting on all financial transactions[11]. This work should incorporate any special reporting requirements under a First Nation's Financial Administration Law or those set by significant funders like ISC or Canada Mortgage Housing Corporation.

Provinces across Canada have enacted legislation which require local governments to prepare supplemental financial reports, in addition to their annual financial statements. The format of these supplemental financial reports creates consistent reporting of data across local governments as accounting standards themselves are not sufficiently prescriptive to allow comparison and benchmarking across municipalities. While First Nations are not comparable to municipalities, as governments they would benefit from more consistency in their reporting of key financial measures. Since the activities and operations of First Nations are diverse and complex, the development of a framework for categorizing financial activities would serve to allow data to be reported, aggregated, and analyzed more efficiently. Currently, key financial indicators for First

[10] "Strengthening the Availability of First Nations Data", Shelley Trevethan, QMR Consulting, Jan. 30, 2019

[11] It is noted that a similar initiative referred to as the "NORM Project" has been started between AFOA BC and ISC. Any work on this recommendation should begin with understanding the current status of this project.

Nations are not consistently reported. This research project endeavored to gather publicly disclosed financial information reported by First Nations, aggregate it, analyze it, and make meaningful observations about First Nation economies. The completion of this research has shown that there is a wealth of information which can be gained, but in its current form, there is significant time and expertise required to form conclusions. It was also seen while completing this research that some First Nations are transparent about the operation and results of their business enterprises while some are less willing to publish this information publicly. Consideration and dialogue will be critical to determining what information can be shared, with whom, and how that information may be aggregated to protect what First Nations consider to be propriety and critical to their businesses' competitive advantage. The financial results in this report were all taken from publicly available financial statements. Aggregating and analyzing this data was a time intensive process because of the way this information is being reported. The solution for the lack of First Nation data isn't solely more reporting, but rather more consistent reporting guidelines combined with more support from trusted First Nation institutions. If First Nations' financial data can be categorized and reported more effectively, a First Nations Statistical Institute could use this data, combine it with non-financial data, and work to drive policy change that will help First Nations succeed.

BENEFITS TO FIRST NATION CITIZENS

The goal of this research, and broadly, the goal of the FMA institutions is to assist First Nations in achieving their economic and social development goals. The reporting of metrics which can be compared across First Nations, governments, and even businesses will allow stakeholders to make informed decisions based on reliable, independent data. First Nations people deserve access to the same breadth and quality of financial information about their governments that other Canadians take for granted. Improved financial reporting would especially benefit First Nations people who live off reserve, in some cases great distances from their communities, who may not be able to attend in-person meetings where important financial information is presented and discussed.

First Nations' leaders have a responsibility to govern in a way which is in the best interest of their citizens, and citizens have a responsibility to hold their leadership accountable. Through the sharing of information, First Nations have an opportunity to identify areas where they're doing well, and the areas where they may be able to do better.

One of the major benefits from working with the FMA institutions is the opportunity for First Nations to connect and learn from each other. The sharing of successes and failures brings First Nations together and provides invaluable lessons about positive outcomes and potential pitfalls. The sharing of statistical information is another opportunity for First Nations to learn from other First Nations.

GLOSSARY

Government Business Enterprises ("GBEs") and Government Business Partnerships ("GBPs")

A for-profit business enterprise or partnership controlled by the First Nation government that meets four criteria established by the Public Sector Accounting Standards:

a) *It is a separate entity with the power to contract in its own name and that can sue and be sued;*
b) *it has been delegated the financial and operational authority to carry on a business;*
c) *it sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity; and*
d) *it can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity.*

Consolidation Method

The consolidation method of accounting is an accounting technique used by a parent company to include the business operations, assets and liabilities of the subsidiary company in the parent company's financial statements. The parent company will include an amount proportional to the percentage of its ownership in subsidiary company and eliminate any intercompany transactions between parent and subsidiary companies. For example, if subsidiary company sold a product to its parent company, during consolidation, subsidiary's revenue related to this sale will be eliminated and parent company's expenditure related to this purchase will also be eliminated.

The consolidation method under Canadian Public Sector Accounting Standards requires the government to include, if for-profit business enterprise or partnership do not meet GBE criteria, the business operations, assets and liabilities of their for-profit business enterprise or partnership on their financial statements.

Modified Equity Method

The equity method of accounting is an accounting technique used by a company to record the profits earned through its investment in another company. With the equity method of accounting, the investor company reports the net income earned by the other company on its income statement, in an amount proportional to the percentage of its equity investment in the other company. (Any differences in accounting policies used by the other company must be first adjusted by the investor company before recording the equity income.) The investor's proportional share of the other company's net income increases the investment (and a net loss decreases the investment), and proportional payments of dividends decrease it.

The Modified Equity Method is an accounting principle established under Canadian Public Sector Accounting Standards and applicable to governments. The equity method of accounting is modified only to the extent that the government business enterprise's accounting principles are not adjusted to conform with those of the government. Thus, the government aggregates a government business enterprise's net assets and net income by adjusting the investment shown in the government's consolidated statement of financial position and by presenting the net income as a separate item on the government's consolidated statement of operations.[12]

North American Industry Classification System ("NAICS")

Industry classification system developed by the statistical agencies of Canada, Mexico and United States to provide common definitions of the industrial structure of the three countries and a common statistical framework to facility the analysis of the three economies.[13]

DISCLAIMER

The financial information contained within this report has been taken from publicly available annual financial statements and their corresponding Independent Auditor's Reports published on Indigenous Services Canada's website as of September 11, 2020. The FMB has taken no steps to audit or otherwise verify this information. The process for summarizing and reporting this data required professional judgement and some assumptions be made. The different categories of revenue used within the report were chosen by the FMB based on the methodology described herein. No efforts were made to communicate with those First Nations who reported their financial data in order to confirm the accuracy of the categorizations made. Best efforts were made to categorize this information in an objective and consistent manner, but the FMB disclaims all responsibility for any errors or omissions contained within. All information in this report is provided "as is", with no guarantee of completeness, accuracy, timeliness or of the results obtained from the use of this information, and without warranty of any kind, express or implied, including, but not limited to warranties of performance, or fitness for a particular purpose.

[12] Section PS 3070 - Investments in government business enterprises.

[13] Introduction to the North American Industry Classification System (NAICS) Canada 2017 Version 3. https://www.statcan.gc.ca/eng/subjects/standard/naics/2017/v3/introduction