

The background of the entire page is a sepia-toned photograph of Indigenous people in traditional regalia. In the foreground, a man wears a large feathered headdress and a garment with star patterns. Behind him, another person in sunglasses and a headdress is visible. To the right, a drum with a buffalo head design is partially seen. The overall mood is cultural and historical.

D1

LOCAL REVENUE FINANCIAL REPORTING

STANDARDS



First Nations
**FINANCIAL
MANAGEMENT
BOARD**

**CONSEIL
DE GESTION
FINANCIÈRE** des
Premières Nations

APRIL 1, 2016

Table 1 - LIST OF CORE DOCUMENTS

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

	FINANCIAL ADMINISTRATION LAW		DESCRIPTION
	A1	FINANCIAL ADMINISTRATION LAW – 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 – SELF-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.
	C2	FINANCIAL PERFORMANCE – STANDARDS	Standards that assess the historical financial performance of a First Nation over a five year period using up to seven financial ratios.
LOCAL REVENUE 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.

Background Context

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

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

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

In the property taxation regime under the Act, the term “local revenues” is used to define moneys raised under a local revenue law made under subsection 5(1) of the Act as well as payments made to a first nation in lieu of a tax imposed by a local revenue law. All first nations listed on the Schedule to the Act (“scheduled first nations”) and raising local revenues under the Act are required under subsection 14(1) of the Act¹ to account for, and report on, their local revenues, separately from other moneys of the first nation in accordance with these Standards. This will normally require a first nation to prepare a set of separate annual financial statements for the purpose of reporting relevant financial information pertaining to the collection and use of local revenues during the period. The primary objective of these financial statements is to report on the results of operations of the local revenue activities 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. These financial statements and the accompanying audit report are to be made available to members of the first nation, other persons who have an interest in the first nation’s lands (i.e. taxpayers), the FNTC, the Board and the Minister of Aboriginal Affairs and Northern Development Canada.

The Board has established financial reporting standards under section 55(1)(d) of the Act to assist first nations to comply with section 14(1) of the Act. These *Local Revenue Financial Reporting Standards* (“Financial

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

Reporting Standards”) establish requirements for the preparation of annual financial statements of a scheduled first nation’s local revenues to promote transparency and to enable a comparative analysis of the financial information presented and disclosed. *D2 – Illustrative Local Revenue Financial Statements* has also been prepared and published by the Board to assist first nations to apply these Financial Reporting Standards. 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 contained in both documents are based on, and are meant to be consistent with, the *Standards for First Nation Expenditure Laws* and the *Sample Annual Expenditure Law* published by the FNTC.

Subsection 14(1.1) of the Act sets forth an option whereby a first nation that meets criteria contained in these standards may disclose the required financial information in the form of a separate segment in the annual audited consolidated financial statements of the first nation. This option has been developed to accommodate the needs of those first nations that are generating taxation revenues at a scale where the costs of preparing separate audited local revenue financial statements may be significant relative to the amount of revenue raised.

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

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

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

The Board has also reviewed the following standards and materials:

- Standards for First Nation Expenditure Laws published by the First Nations Tax Commission
- Understanding Canadian Public Sector Financial Statements published by the Office of the Auditor General of British Columbia
- Various ISO (International Organization for Standardization) Standards, including ISO 9001 (Quality Management Systems) and ISO 17021 (Conformity assessment – Requirements for bodies providing audit and certification of management systems)

- IWA4 (ISO International Workshop Agreement #4) – Guidelines for the Application of ISO 9001:2000 “Quality Management Systems for Local Governments”
- ISO/IEC (International Electrotechnical Commission) Directives, Part 2 – Rules for the Structure and Drafting of International Standards
- CPA (Chartered Professional Accountants) Canada Handbook and Study Group documents
- CPA (Chartered Professional Accountants) Canada Public Sector Accounting Handbook, Public Sector Guidelines and Public Sector Statements of Recommended Practice
- Additional Public Sector Accounting Board materials
- Excerpts from TSX (Toronto Stock Exchange) materials.

Table of Contents

1.0	PURPOSE	7
2.0	APPLICATION	7
3.0	INTERPRETATION OF STANDARDS	7
4.0	CONFLICTS	9
5.0	LOCAL REVENUE FINANCIAL INSTITUTION ACCOUNT	9
6.0	TRANSFERS TO OTHER FINANCIAL INSTITUTION ACCOUNTS	9
7.0	LOCAL REVENUE FINANCIAL STATEMENTS	9
8.0	LOCAL REVENUE FINANCIAL STATEMENT DISCLOSURES	10
9.0	LOCAL REVENUE FINANCIAL STATEMENT AUDIT	10
10.0	LOCAL REVENUE SEGMENT DISCLOSURE	11
	SCHEDULE 1 – LOCAL SERVICE EXPENDITURE CATEGORIES	13

FIRST NATIONS FINANCIAL MANAGEMENT BOARD

LOCAL REVENUE FINANCIAL REPORTING STANDARDS

1.0 PURPOSE

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

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

2.0 APPLICATION

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

3.0 INTERPRETATION OF STANDARDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“taxpayer” means a person liable for the payment of taxes;

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

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

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

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

- a. words in the singular include the plural, and words in the plural include the singular;
- b. if a word or expression is defined, other parts of speech and grammatical forms of the same word or expression have corresponding meanings;
- c. a reference to a law, including a financial administration law, means the law as amended or replaced from time to time;
- d. a reference to a standard means the standard as amended or replaced from time to time;
- e. headings, subheadings and notes are inserted for convenience of reference only, do not form part of these standards and in no way define, limit, alter or enlarge the scope or meaning of any provision of these standards.

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

4.0 CONFLICTS

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

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

5.0 LOCAL REVENUE FINANCIAL INSTITUTION ACCOUNT

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

6.0 TRANSFERS TO OTHER FINANCIAL INSTITUTION ACCOUNTS

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

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

7.0 LOCAL REVENUE FINANCIAL STATEMENTS

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

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

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

- a. annual budgeted amounts for revenues and expenditures as presented in the first nation's most recent annual expenditure law; and

- b. actual results for the current and immediately preceding reporting periods.

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

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

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

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

8.0 LOCAL REVENUE FINANCIAL STATEMENT DISCLOSURES

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

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

9.0 LOCAL REVENUE FINANCIAL STATEMENT AUDIT

9.1 Auditor qualifications – The auditor of a first nation's local revenue financial statements is

- a. appointed by the council of the first nation,

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

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

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

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

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

10.0 LOCAL REVENUE SEGMENT DISCLOSURE

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

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

10.3 GAAP – A segment note disclosure prepared in accordance with this standard is prepared in accordance with GAAP and the first nation's own accounting policies. (Public Sector Accounting

Standard 2700, *Segment reporting*, contains the authoritative requirements for the presentation and content of segment information within a set of financial statements of a first nation.)

SCHEDULE 1**Local Service Expenditure Categories**

- | | |
|--|---|
| <p>1. General Government Expenditures</p> <ul style="list-style-type: none"> a. Executive and Legislative b. General Administrative c. Other General Government <p>2. Protection Services</p> <ul style="list-style-type: none"> a. Policing b. Firefighting c. Regulatory Measures d. Other Protective Services <p>3. Transportation</p> <ul style="list-style-type: none"> a. Roads and Streets b. Snow and Ice Removal c. Parking d. Public transit e. Other Transportation <p>4. Recreation and Cultural Services</p> <ul style="list-style-type: none"> a. Recreation b. Culture c. Heritage Protection d. Other Recreation and Culture <p>5. Community Development</p> <ul style="list-style-type: none"> a. Housing b. Planning and Zoning c. Community Planning d. Economic Development Program e. Tourism f. Trade and Industry g. Land Rehabilitation and Beautification h. Other Regional Planning and Development | <p>6. Environmental Health Services</p> <ul style="list-style-type: none"> a. Water Purification and Supply b. Sewage Collection and Disposal c. Garbage Waste Collection and Disposal d. Recycling e. Other Environmental Services <p>7. Fiscal Services</p> <ul style="list-style-type: none"> a. Long-term Borrowing Payments to the First Nations Finance Authority b. Interim financing Payments to the First Nations Finance Authority c. Other Payments d. Accelerated Debt Payments e. Other Fiscal Services <p>8. Other Services</p> <ul style="list-style-type: none"> a. Health b. Social Programs and Assistance c. Agriculture d. Education e. Other Service <p>9. Grants</p> <ul style="list-style-type: none"> a. Home owner grant equivalents b. Other grants <p>10. Contingency Amounts</p> <p>11. Transfers into Reserve Funds</p> <p>12. Repayment of moneys borrowed from Reserve Funds</p> |
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(Source: Sample Annual Expenditure Law, First Nations Tax Commission, 2015-04-09)