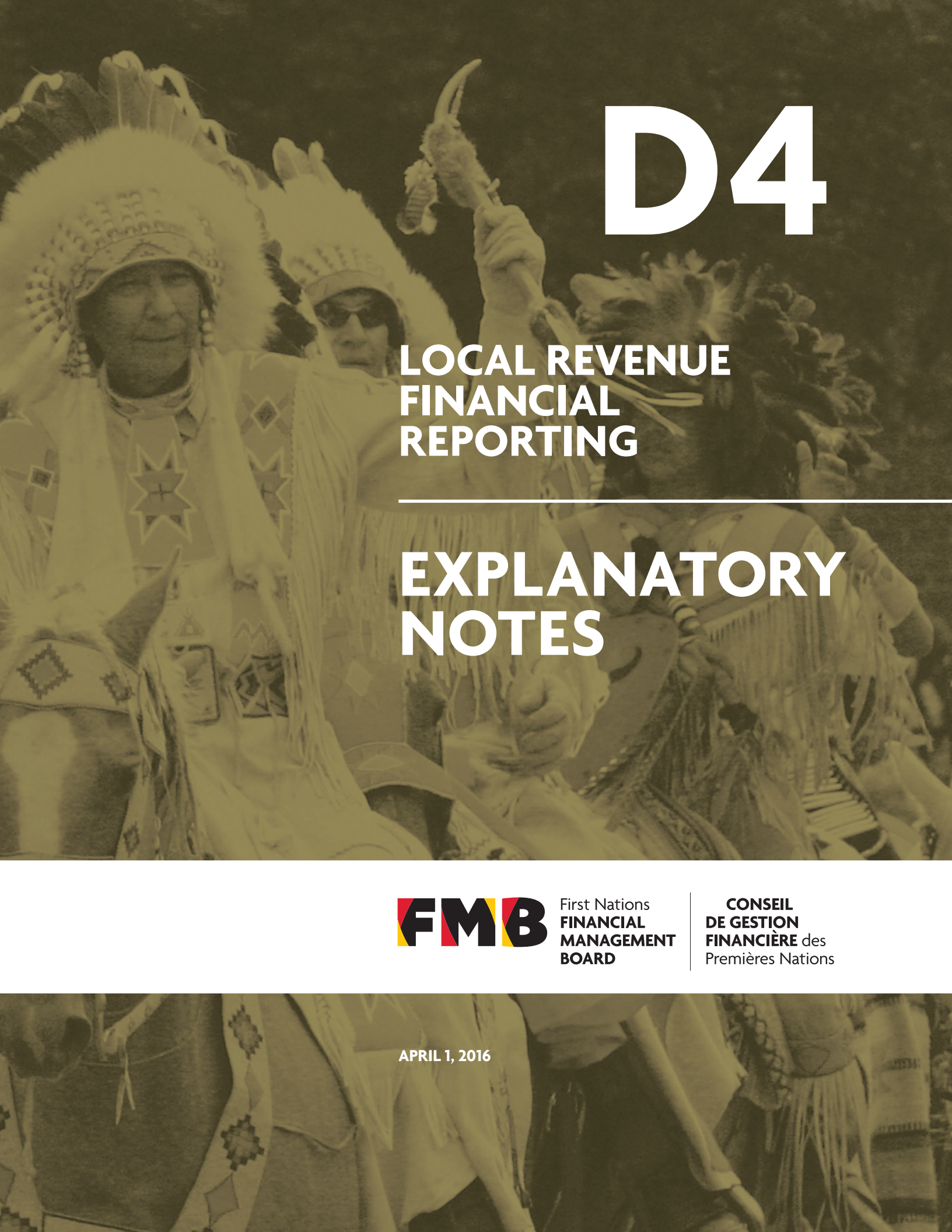


The background of the entire page is a sepia-toned photograph of Indigenous people in traditional regalia. In the foreground, a man wears a large feathered headdress and a garment with star patterns. Behind him, another person in similar regalia is visible. The image is partially obscured by text and a horizontal line.

# D4

## LOCAL REVENUE FINANCIAL REPORTING

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## EXPLANATORY NOTES



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 –<br><b>REVIEW PROCEDURES</b>                         | Procedures to apply when requesting a compliance approval of the First Nation’s Financial Administration Law.                                                                         |
|                                                                                     | A2                           | FINANCIAL ADMINISTRATION LAW –<br><b>STANDARDS</b>                                 | Standards that support sound financial administration practices for a First Nation government in Canada.                                                                              |
|                                                                                     | A3                           | <b>SAMPLE</b> FINANCIAL ADMINISTRATION<br>LAW                                      | Example of a law which meets the requirements of the A2 Financial Administration Law – Standards.                                                                                     |
|                                                                                     | A4                           | FINANCIAL ADMINISTRATION LAW –<br><b>EXPLANATORY NOTES</b>                         | Provides assistance on the development of a Financial Administration Law by discussing the structure and substantive content of the A3 Sample Financial Administration Law.           |
|                                                                                     | A5                           | FINANCIAL ADMINISTRATION LAW –<br><b>SELF-ASSESSMENT</b>                           | Tool that can be utilized to compare existing or proposed Financial Administration Law(s) of the First Nation to the A2 Financial Administration Law – Standards.                     |
| <b>FINANCIAL MANAGEMENT SYSTEM</b>                                                  |                              |                                                                                    |                                                                                                                                                                                       |
|                                                                                     | B1                           | FINANCIAL MANAGEMENT SYSTEM –<br><b>CERTIFICATION PROCEDURES</b>                   | Procedures to apply when requesting a review of the First Nation’s financial management system.                                                                                       |
|                                                                                     | B2                           | FINANCIAL MANAGEMENT SYSTEM –<br><b>STANDARDS</b>                                  | Standards that support sound financial practices for the operation, management, reporting and control of the financial management system of a First Nation.                           |
|                                                                                     | B3                           | FINANCIAL MANAGEMENT SYSTEM –<br><b>SELF-ASSESSMENT</b>                            | Tool that can be utilized to compare the existing financial management system of the First Nation to the B2 Financial Management System – Standards.                                  |
| <b>FINANCIAL PERFORMANCE</b>                                                        |                              |                                                                                    |                                                                                                                                                                                       |
|                                                                                     | C1                           | FINANCIAL PERFORMANCE –<br><b>CERTIFICATION PROCEDURES</b>                         | Procedures to apply when requesting a review of the First Nation’s financial performance.                                                                                             |
|                                                                                     | C2                           | FINANCIAL PERFORMANCE –<br><b>STANDARDS</b>                                        | Standards that assess the historical financial performance of a First Nation over a five year period using up to seven financial ratios.                                              |
| <b>LOCAL REVENUE FINANCIAL REPORTING</b>                                            |                              |                                                                                    |                                                                                                                                                                                       |
|                                                                                     | D1                           | LOCAL REVENUE FINANCIAL REPORTING –<br><b>STANDARDS</b>                            | Standards that establish requirements for the financial reporting of a First Nation’s local revenues and expenditures.                                                                |
|                                                                                     | D2                           | LOCAL REVENUE FINANCIAL REPORTING –<br><b>ILLUSTRATIVE FINANCIAL STATEMENTS</b>    | 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 –<br><b>ILLUSTRATIVE SEGMENT NOTE DISCLOSURE</b> | 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. |
|  | <b>D4</b>                    | LOCAL REVENUE FINANCIAL REPORTING –<br><b>EXPLANATORY NOTES</b>                    | Explanatory notes to accompany D1 Local Revenue Financial Reporting – Standards.                                                                                                      |

## **Background Context**

The *First Nations Fiscal Management Act* (“the Act”)<sup>1</sup> 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 Act 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.

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



The Board has established financial reporting standards under section 55(1)(d) of the Act to assist first nations to comply with section 14(1) of the Act. These *Local Revenue Financial Reporting Standards* (“Financial Reporting Standards”) establish requirements for the preparation of annual financial statements of a scheduled first nation’s local revenues to promote transparency and to enable a comparative analysis of the financial information presented and disclosed. *D2 – Illustrative Local Revenue 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 those first nations that qualify to use this simplified reporting option, these Financial Reporting Standards include a description of the inherent limitations that this option presents, along with a sample letter in Schedule 2 that can be sent to individual taxpayers.

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

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

The Board has also reviewed the following standards and materials:

- Standards for First Nation Expenditure Laws published by the First Nations Tax Commission
- Understanding Canadian Public Sector Financial Statements published by the Office of the Auditor General of British Columbia
- Various ISO (International Organization for Standardization) Standards, including ISO 9001 (Quality Management Systems) and ISO 17021 (Conformity assessment – Requirements for bodies providing audit and certification of management systems)
- IWA4 (ISO International Workshop Agreement #4) – Guidelines for the Application of ISO 9001:2000 “Quality Management Systems for Local Governments”

- ISO/IEC (International Electrotechnical Commission) Directives, Part 2 – Rules for the Structure and Drafting of International Standards
- CPA (Chartered Professional Accountants) Canada Handbook and Study Group documents
- CPA (Chartered Professional Accountants) Canada Public Sector Accounting Handbook, Public Sector Guidelines and Public Sector Statements of Recommended Practice
- Additional Public Sector Accounting Board materials
- Excerpts from TSX (Toronto Stock Exchange) materials.

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## FIRST NATIONS FINANCIAL MANAGEMENT BOARD

### LOCAL REVENUE FINANCIAL REPORTING EXPLANATORY NOTES

#### 1.0 PURPOSE

This section describes the purpose and objectives of the Financial Reporting Standards, including a cautionary note.

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 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 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 Board 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 councils<sup>2</sup>. 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 Board, 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.

#### **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

<sup>2</sup> Refer to <https://www.cpacanada.ca/en/the-cpa-profession/how-cpa-canada-supports-standard-setting>



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 Board'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 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. 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 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 Public Sector Accounting Standards (“PSAS”) as issued by the Public Sector Accounting Board. Under PSAS 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 PSAS 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 Board 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 31<sup>st</sup> that differs from the first nation's December 31<sup>st</sup> 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.

## 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, 20x2].

“Local revenues” refers to moneys raised under a local revenue law made under section 5(l) of the Act as well as payments made to a First Nation in lieu of a tax imposed by a local revenue law. The standards for the development and enactment of a local revenue law are established by the First Nations Tax Commission ([www.fntc.ca](http://www.fntc.ca)) while the standards for the reporting of local revenues are established by the First Nations Financial Management Board (“the Board”) ([www.fnfmb.com](http://www.fnfmb.com)).

The local revenue reporting standards issued by the Board (and available on its website) are contained in ‘*D1 – Local Revenue 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 Board’s standards allow First Nations, under certain conditions, to report the collection and expenditure of local revenues in the form of a distinct segment note disclosure contained in the annual financial statements of the First Nation. [Name of First Nation] has met the conditions that make this simplified form of annual reporting possible and has chosen to make use of this option.

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

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

Sincerely,

[Insert signature]

[Name]

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