

Financial Reporting by First Nations Study Group Conclusions



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The opinions stated in the presentation are those of the speakers and do not necessarily represent the Study Group. The Study Group conclusions are reflected in the Report.

References are made to the *Public Sector Accounting Handbook*. It should be consulted as the primary authoritative source of GAAP for the Public Sector.

Financial Reporting by First Nations Study Group Conclusions



- Need for Study Group Report
- Study Group, Mandate and Work Plan
- Study Group Analysis
- Input on Draft Report
- Recommendations and Implications

Financial Reporting by First Nations

Need for Study Group Report



- Accounting standards for governments in Canada are set by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA)
- The *Public Sector Accounting (PSA) Handbook* is GAAP for governments in Canada
- However, GAAP does not explicitly address First Nations governments

Financial Reporting by First Nations Need for Study Group Report



- Current practice driven by compliance to INAC funding terms and conditions
- INAC determines what financial information they need for their funding agreements and communicates this in their Year-end Reporting Handbook
- INAC's November 2003 Year-end Reporting Handbook requires First Nations to use GAAP for local governments as spelled out in *PSA Handbook*

Financial Reporting by First Nations

Need for Study Group Report

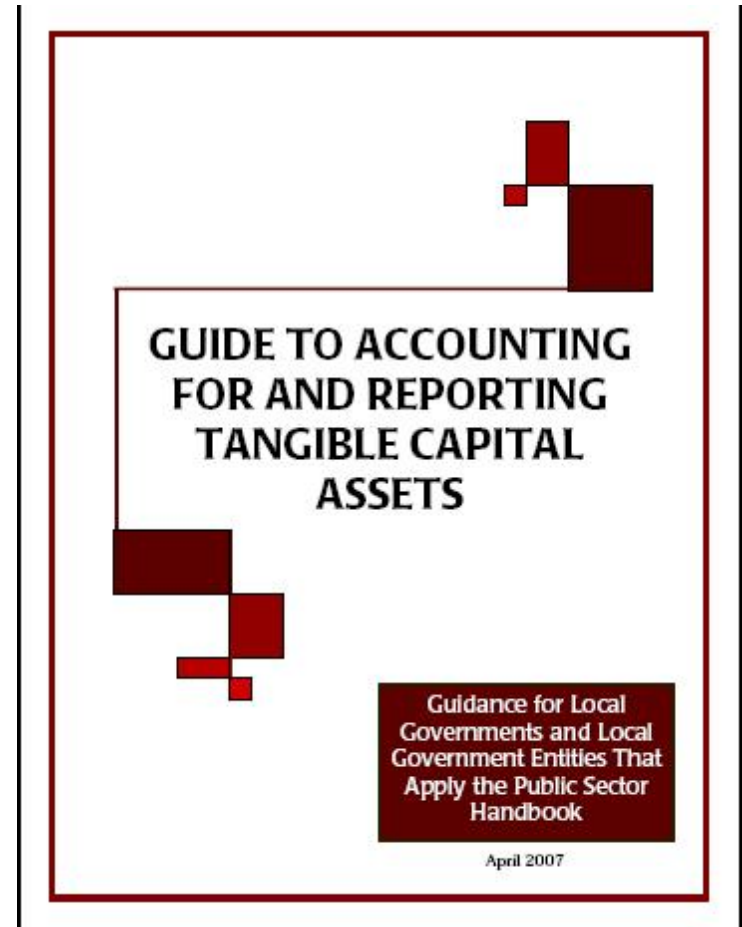


- Year ends beginning on or after January 1, 2009, local government model same as senior government model
- INAC's recommendations for First Nations financial reporting will no longer be GAAP
- Only one way for governments to report according to the *PSA Handbook* (common government reporting model)
- Biggest changes from the local government model include:
 - Accounting for tangible capital assets including infrastructure (See *PSA Handbook* PS 3150 Tangible Capital Assets)
 - Amortization going through Statement of Operations
 - Funds do not appear on face of financial statements although they can be provided in note disclosure



Financial Reporting by First Nations Need for Study Group Report

- See PSAB website for non-authoritative guidance on Tangible Capital Assets
- http://www.psab-ccsp.ca/index.cfm/ci_id/18656/la_id/1.htm



The final draft of the Report has yet to be approved by the Study Group.

Financial Reporting by First Nations Need for Study Group Report



- PSAB has authorized Study Group to prepare report on Financial Reporting by First Nations
- Report reflects views of Study Group – not PSAB or CICA
- Report NOT GAAP; but is a source to be consulted in the absence of GAAP
- Accounting standards must go through a much more rigorous process with more opportunity for stakeholder input; process takes years

Financial Reporting by First Nations Study Group, Mandate and Work Plan



VOTING MEMBERS:

Keith Martell, CA, CAFM – Executive Chairman, First Nations Bank of Canada (Chair)

Jerome Berthelette, LLB - Principal, Office of the Auditor General of Canada

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NON-VOTING TECHNICAL SUPPORT:

Nola Buhr, PhD, CA - Associate Dean, Edwards School of Business, U of S (researcher)

Caroline Davis, CA - ADM, Lands and Trust Services, INAC (non-voting)

Sandra Waterson, CA - Principal, Public Sector Accounting, CICA (non-voting)

Financial Reporting by First Nations Study Group, Mandate and Work Plan

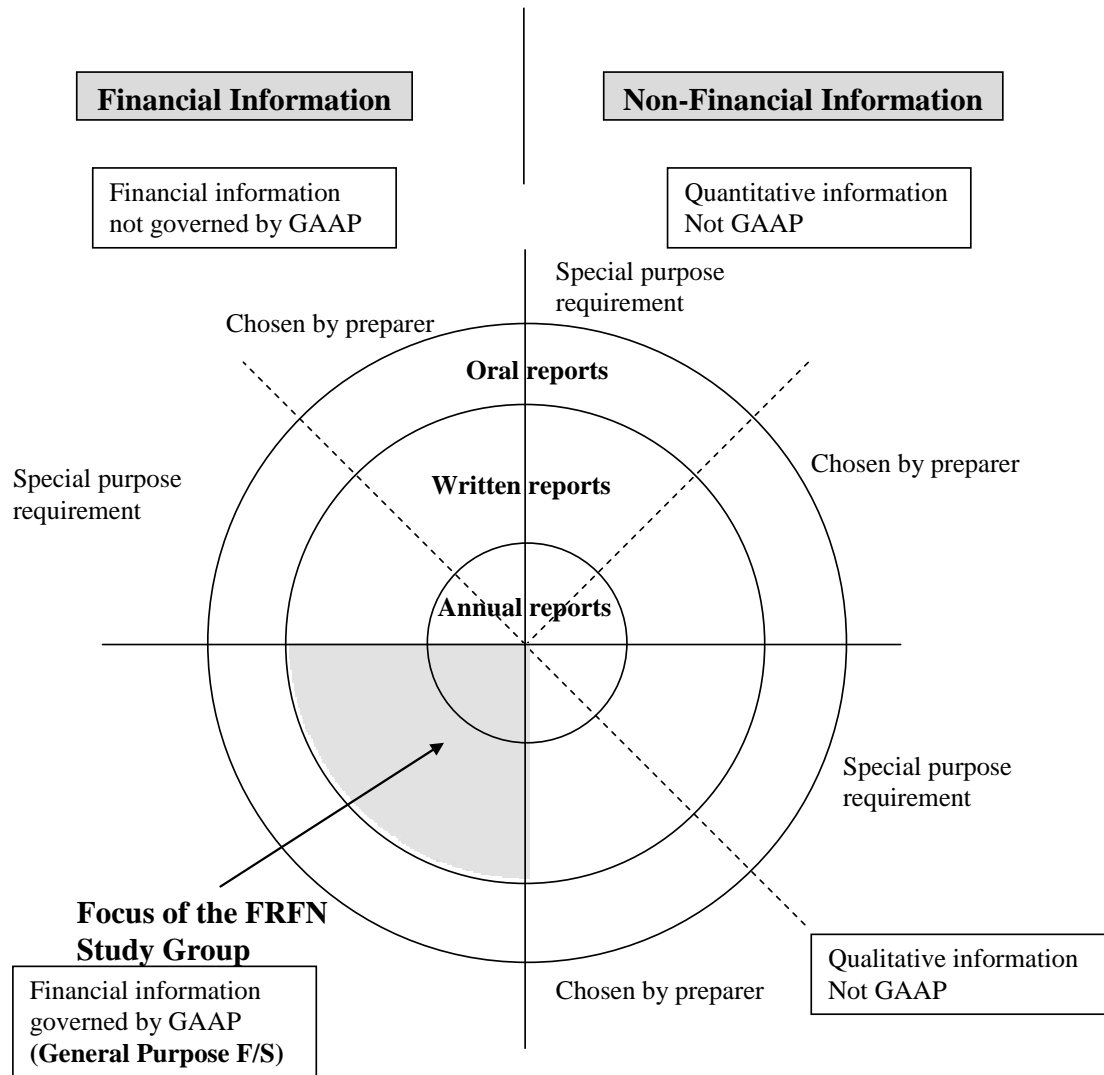
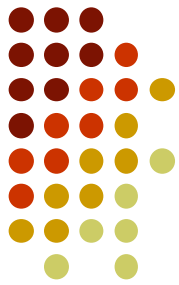


- 6 two-day Study Group meetings - last meeting held January 2008
- 6 Regional Focus Group meetings – March 2007
- Period for feedback – closed October 22, 2007
- What's left to do? → editing and translation
- Goal – Published by June 2008

Financial Reporting by First Nations Study Group, Mandate and Work Plan



- Accountability is the guiding concept for the report
- Study Group only looked at General Purpose Financial Statements
 - General purpose financial statements are meant to serve a broad range of users
- Study Group did not look at INAC's reporting needs or the reporting needs of any other special purpose information user
 - Special purpose financial statements are meant to serve the needs of a specific user for a specific purpose



The final draft of the Report has yet to be approved by the Study Group.

Financial Reporting by First Nations Study Group Analysis



- Study Group looked at six alternatives
 1. Common Government Reporting Model - GAAP
 2. For-profit - GAAP
 3. Not-for-profit - GAAP
 4. Keeping the local govt. model (NOT GAAP)
 5. Mix of accounting standards (NOT GAAP)
 6. Accounting standards just for FN

Financial Reporting by First Nations Study Group Analysis



- For-profit
 - A FN government may have for-profit organizations (economic development). These should use for-profit GAAP.
 - But overall the FN government operates for the benefit and well-being of members.
 - A FN government does not operate to provide pro rata returns to shareholders based on ownership percentage.
 - No

Financial Reporting by First Nations Study Group Analysis



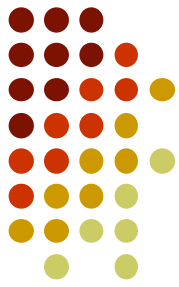
- Not-for-profit
 - A FN government may have not-for-profit organizations (health and social services). These should use not-for-profit GAAP.
 - A FN government does not have a single charitable objective. It has many objectives.
 - A FN government does not get revenue from charitable donations.
 - A FN government operates for the benefit of the members of the FN.
 - No

Financial Reporting by First Nations Study Group Analysis



- Keeping the local govt. model
 - NOT GAAP
 - Must have GAAP
 - Must have benefits of Tangible Capital Asset reporting
- Mixture of accounting standards
 - NOT GAAP
 - Confuses users
 - Must have GAAP

Financial Reporting by First Nations Study Group Analysis



- Accounting Standards just for First Nations
 - Option would only be required if there were enough significant differences from other governments to warrant separate GAAP
 - Separate GAAP would take decades to develop and significant resources to maintain
 - Would make First Nations governments incomparable with other governments

Financial Reporting by First Nations Study Group Analysis



Examined *PSA Handbook* to see if it applies to First Nations

- Examined user information needs and general purpose financial statements (Section PS 1000, “Financial Statement Concepts”);
- Evaluated the characteristics of government (Section PS 1100.A, “Financial Statement Objectives, Appendix A – Unique Characteristics of Government”);
- Examined Sections PS 1100, “Financial Statement Objectives”, and PS 1200, “Financial Statement Presentation”; and
- Reviewed Section PS 1300, “Government Reporting Entity”.

Financial Reporting by First Nations Study Group Analysis



The Study Group felt strongly:

- First Nations structures are governments
- Ideal if public sector GAAP would suit financial reporting by FN governments
- Comparability within FN governments and between FN governments and other governments is critical

Financial Reporting by First Nations Study Group Analysis

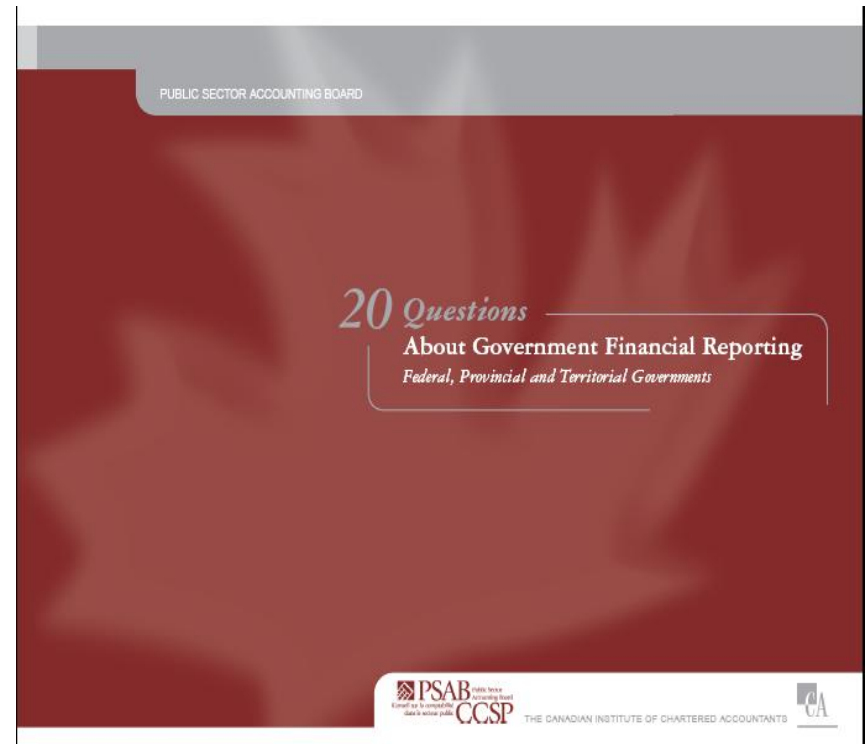


- Public sector GAAP allows govt. organizations to use for-profit or not-for-profit GAAP if appropriate
- Use public sector GAAP for overall consolidated F/S
- Study Group concluded the PSA Handbook and GAAP for governments applies to FN
- Common Government Reporting Model best

Financial Reporting by First Nations Study Group Analysis



- Check out this model
- http://www.cica.ca/multimedia/Download_Library/Standards/PSAB/English/e_PSAB20QuestionsGRE.pdf



Financial Reporting by First Nations Input on Draft Report



- Study Group received comment letters on draft report
- Most people agreed that the common government reporting model in the *PSA Handbook* worked best for First Nations governments

Financial Reporting by First Nations Input on Draft Report



- Some comments received
 - Common government reporting model should meet needs of all federal govt. departments; would reduce reporting burden - Yes
 - All federal government departments should rely more fully on general purpose financial statements; would reduce reporting burden - Yes
 - Capacity building is critical amongst preparers, auditors and users - Yes

Financial Reporting by First Nations Input on Draft Report



- More comments...
 - Departure from fund reporting is a problem
Study Group said:
 - Need summary F/S to get financial snapshot
 - Information on funds can be disclosed in the notes to the F/S
 - Amortization should not be charged to operations
Study Group said:
 - For good stewardship and management need to recognize cost of using assets in operations

Financial Reporting by First Nations Recommendations and Implications



- RECOMMENDATION:

The *Public Sector Accounting Handbook* and the common government reporting model described in the *Public Sector Accounting Handbook* applies to First Nations governments.

Financial Reporting by First Nations Recommendations and Implications



- **RECOMMENDATION:**

The Public Sector Accounting Board should re-examine their definitions of public sector and government to ensure they are inclusive of First Nations.

Financial Reporting by First Nations Recommendations and Implications



- **RECOMMENDATION:**

Although beyond the scope of this Report, the Study Group urges First Nations governments to consider the whole Performance Reporting Model shown in Exhibit 1, including qualitative and quantitative non-financial information and a full range of financial information.

Financial Reporting by First Nations Recommendations and Implications



- **RECOMMENDATION:**

Although beyond the scope of this Report, the Study Group urges the federal government to reduce the reporting burden on First Nations by requiring only one set of audited general purpose financial statements, prepared in accordance with the *Public Sector Accounting Handbook*, supported by special purpose reporting, where necessary, for accountability.

Financial Reporting by First Nations Recommendations and Implications



- **IMPLICATION:**

In order for the adoption of the common government reporting model to be successful, capacity building is essential amongst three key groups: preparers, auditors and users.

- e.g. INAC will need to review intervention policies

Financial Reporting by First Nations Recommendations and Implications



- **IMPLICATION:**

First Nations will need to be considered in the evolution of accounting standards and play a role in the due process of standard setting.

Financial Reporting by First Nations Recommendations and Implications



- IMPLICATION:

There is a critical need for INAC to update the Year-end Reporting Handbook to be consistent with the *Public Sector Accounting Handbook* and clearly differentiate between general purpose reporting and special purpose requirements. Otherwise, First Nations following INAC's Year-end Reporting Handbook will not be in compliance with GAAP.

Financial Reporting by First Nations Conclusion



Watch the PSAB and AFOA websites
for the final version
expected in June 2008!