

# Community Financial Review Process

Presentation for  
AFOA  
November 2022



## Debt Defined

***Debt is an essential tool to build safe, healthy and modern communities, it can bootstrap you to prosperity, develop your resources, grow your economy, create jobs, and make life better for your people. But debt is like a power tool: when it gets out of control, things turn into a nightmare and progress can grind to a stop for a generation. Our community report process is about making sure debt works for us***

*- Chief Terrance Paul*

# Community Financial Review

## OVERVIEW



- Developed, revised, and tested over the last 14 years to assist community leaders to better use and understand their financial information for planning and decision making
- Guides Chiefs and Councils through years of financial reports to analyze trends and financial position based on their own circumstances and information needs
- Provides a tool which can be used to make informed investment and borrowing decisions
- Voluntary participation by the community and Chief and Council, not mandated by any other organization or authority.
- Confidential, third party independent review, by an organization committed to assisting Indigenous communities

# Community Financial Review

## BENEFITS



- Translates large amounts of complex data into graph form, making it easier to visualize
- Leads to a clearer understanding of current financial situation
- Assists in making informed investment and borrowing decisions
- Allows for a better sense of the relative value of financing options
- Supports newly elected Chief and Councils to quickly get a grasp on the community financial position during leadership changes
- Provides documented evidence to illustrate growth and financial position to interested parties

# Community Financial Review

## OBJECTIVE



**Not to turn Chiefs and Councils into financial experts,**  
but to provide them as a group with data and capacity to:

- *Be on top of things*
- *Be able to identify problem areas*
- *Understand financial trends*
- *Compare debt and financing options*
- *Know what questions to ask internal or external advisors*
- *Know how to integrate their answers into responsible long term community debt and investment decision making*

# Community Financial Review REPORT

Turn this:



=

Into this:



# Community Financial Review

## A COMPLIMENTARY TOOL



### EXISTING

- First Nation Government Audits are designed to confirm that funding was spent throughout the various programs and economic entities.
- AFOA offers a financial management literacy curriculum and certification program for financial and non-financial managers - a valuable and much needed service focused on the audited financial statements and the needs of financial managers.
- FNFMB sets standards for financial management systems using: Financial Administration Law Standards and Approval, Financial Management System Standards and Certification, Financial Performance Standards and certification.
- ISC sets reporting standards in response to government administration requirements.

### COMMUNITY FINANCIAL REVIEW PROCESS

- Has been designed specifically to instruct leaders about their community and their financial planning and decision making.
- Researches the communities' financial data based on their specific needs and assists the Chief and Council as a group in interpreting the data for actual decisions in real time.
- Assists Chief and Council in using the financial information effectively.
- Enhances the value of this reporting by recasting the information in ways that are relevant to the immediate decision making needs of Chief and Council.

# Feedback

- It reinforced with charts and colour some of the success and problem areas the community has been talking about and helped them to better understand and drill down to relevant areas.
- Band Manager noted after a community presentation that it was informative and actually taught her some additional things that even she wasn't aware of.
- Expectations for the review were met, it was useful to the community, and seemed complete as it is.
- You could tell that you spent time on the numbers as you were familiar with the important areas (positive & negative) that a casual reader would miss.



# Community Financial Review

## REPORT



- The Community Financial Review reformats the data contained in the audited financial statements to create an easier to understand structure.
- Through this process, we disassemble the details in the financial statements, then reassemble them in order to analyze and create the report.
- The report creates a trend analysis, mainly in graphical form, so that non-financial people can see the finances in a perspective that allows them to better use the information for decision making.
- The report is divided into 6 easy to digest sections, highlighted on the following slides.

# Community Financial Review

## PROCESS



The Community Financial Review Process is an education process that provides community leaders with a comprehensive, iterative, and historical review of in-depth financial information. It is a two-step process that repeats and grows from year to year.

### STEP 1

Preparation of a reliable set of **standardized and streamlined multi-year financial and performance data** tailored to the specific needs and circumstances of each participating Nation.

### Step 2

An ongoing, multi-year sequence of meetings with C&C to **review the findings of this data set and examine implications** for both short term challenges/opportunities, and long term strategic planning.

# Community Financial Review

## REPORT - Sections

### REVENUES

- Is government funding growing?
- How have band businesses contributed to community revenues?
- How much has been received in government capital contributions?
- How have these revenues grown throughout the years?

### BAND PROGRAM RESULTS

- Are Band programs running at an overall surplus or deficit?
- What are the trends?
- How are individual programs performing?
- How are program deficits being covered?

### BAND BUSINESS RESULTS

- How much profit are the businesses bringing into the community?
- How has each business performed with respect to sales and profits?
- What is behind fluctuations in profitability?
- What growth in profitability have the businesses seen over the years?

# Community Financial Review

## REPORT - Section

### ASSETS, LIABILITIES, & EQUITY

- Is the community growing?
- How is debt position in relation to asset growth?
- How does working capital look – is the community liquid?
- How much debt is there and is it growing or declining?

### CASH FLOW

- Has there been sufficient funds to pay existing debts?
- How much cash has been invested in the community?
- Of this, how much was covered by government contributions/new loans?
- Is the end result a cash surplus or deficit?

### DEBT CAPACITY

- Given cash flow, is there cash available to further finance investment in the community?
- If so, how much can possibly be borrowed?
- What types of payments are needed for different loan terms?

# **Sample Community Financial Review**

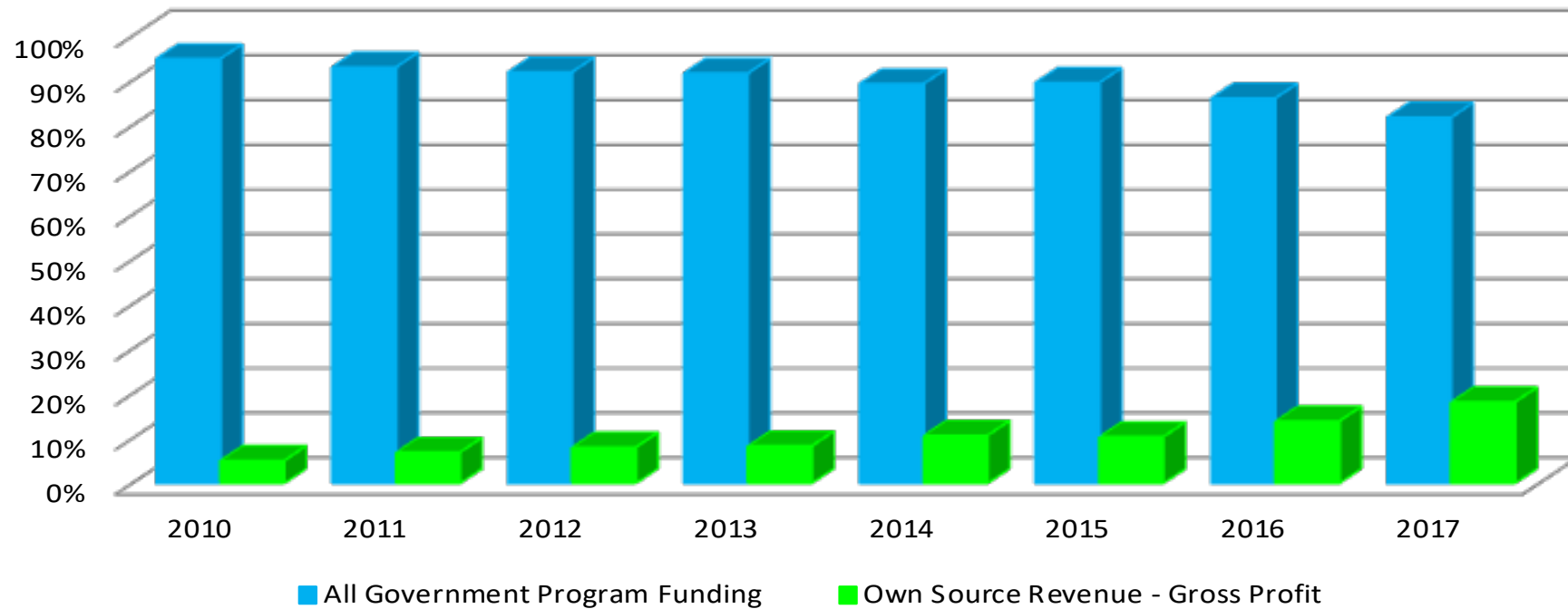
# Revenues

(Statement of Financial Position and  
Schedules)

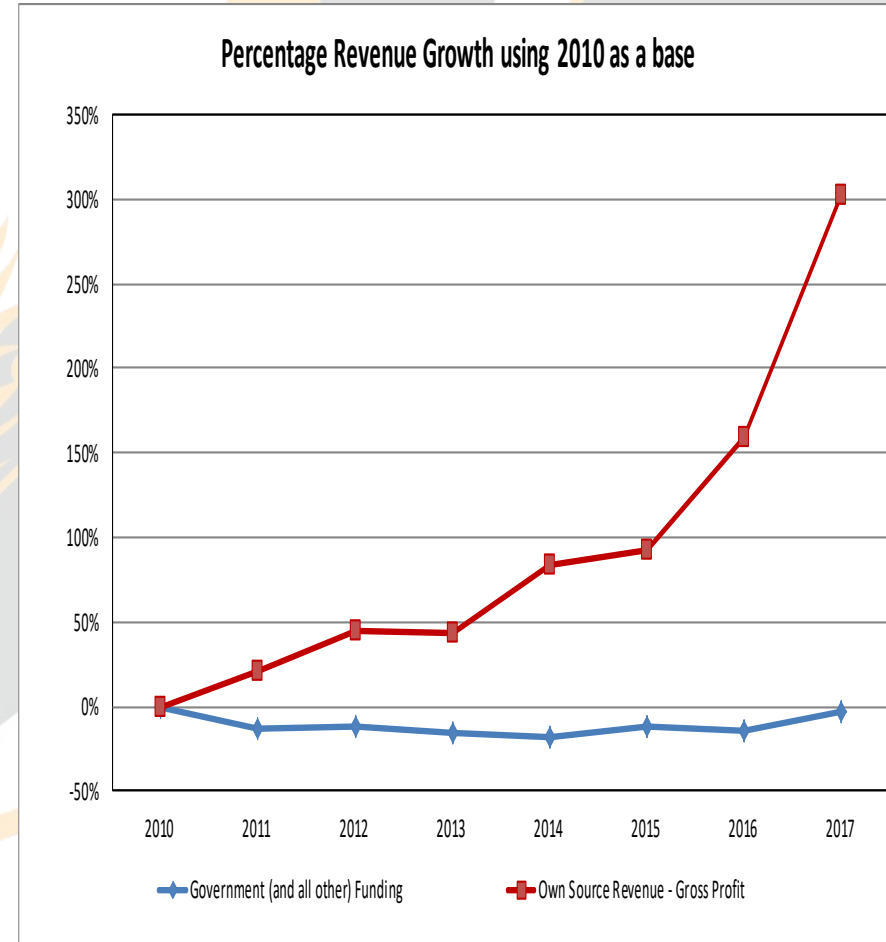
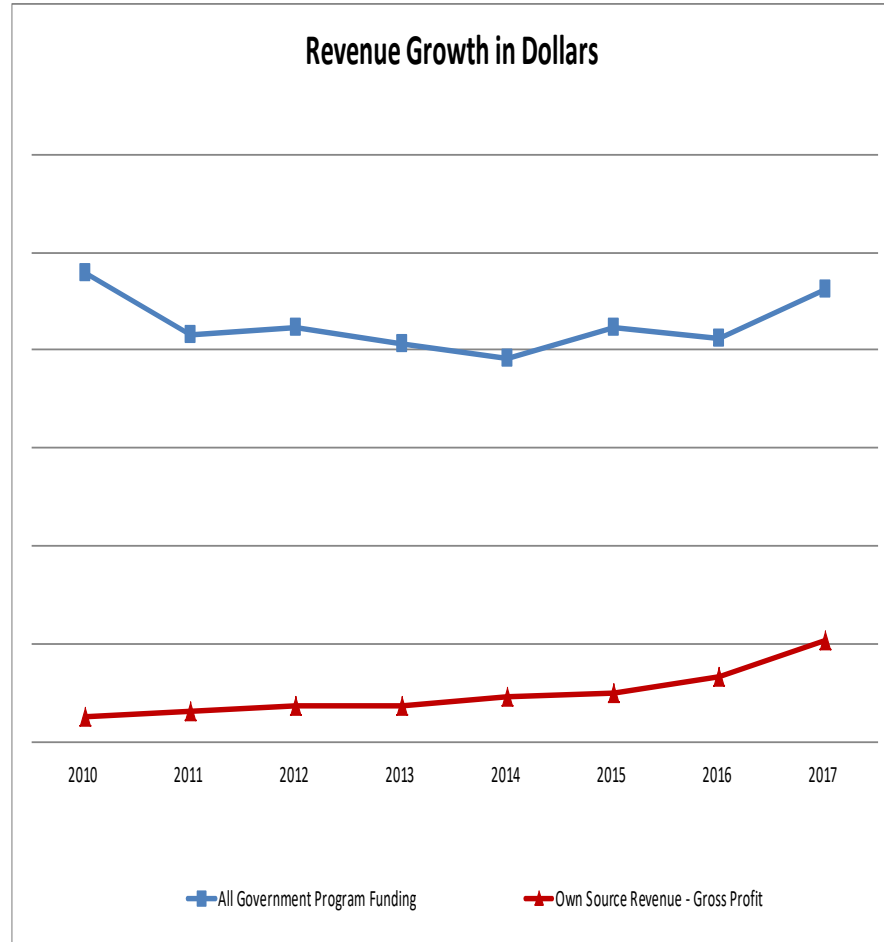
# Revenue as a Percentage

## Government Program and Own Source Funding as a % of Total Revenue

(Excludes Capital Contributions)



# Revenue Growth

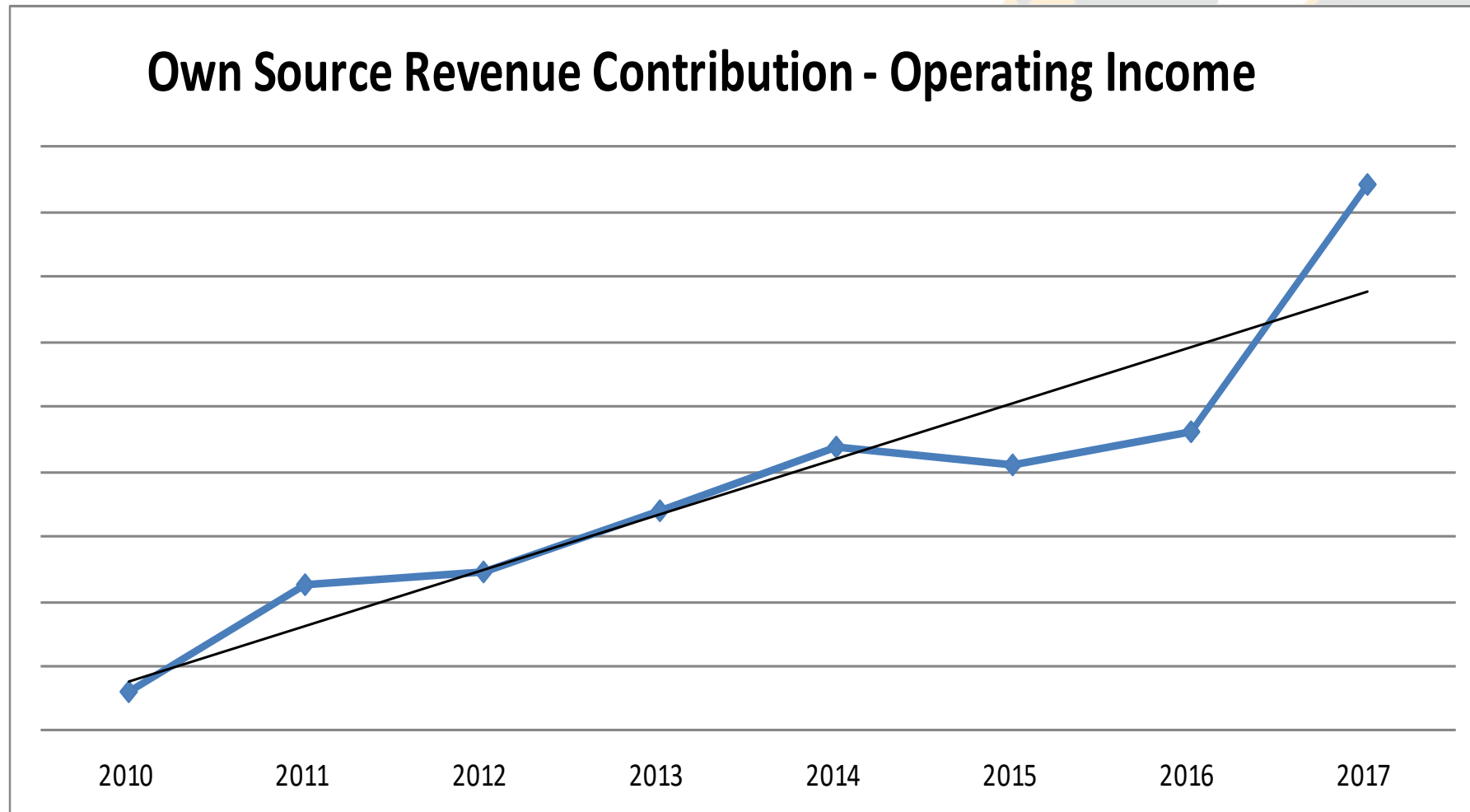




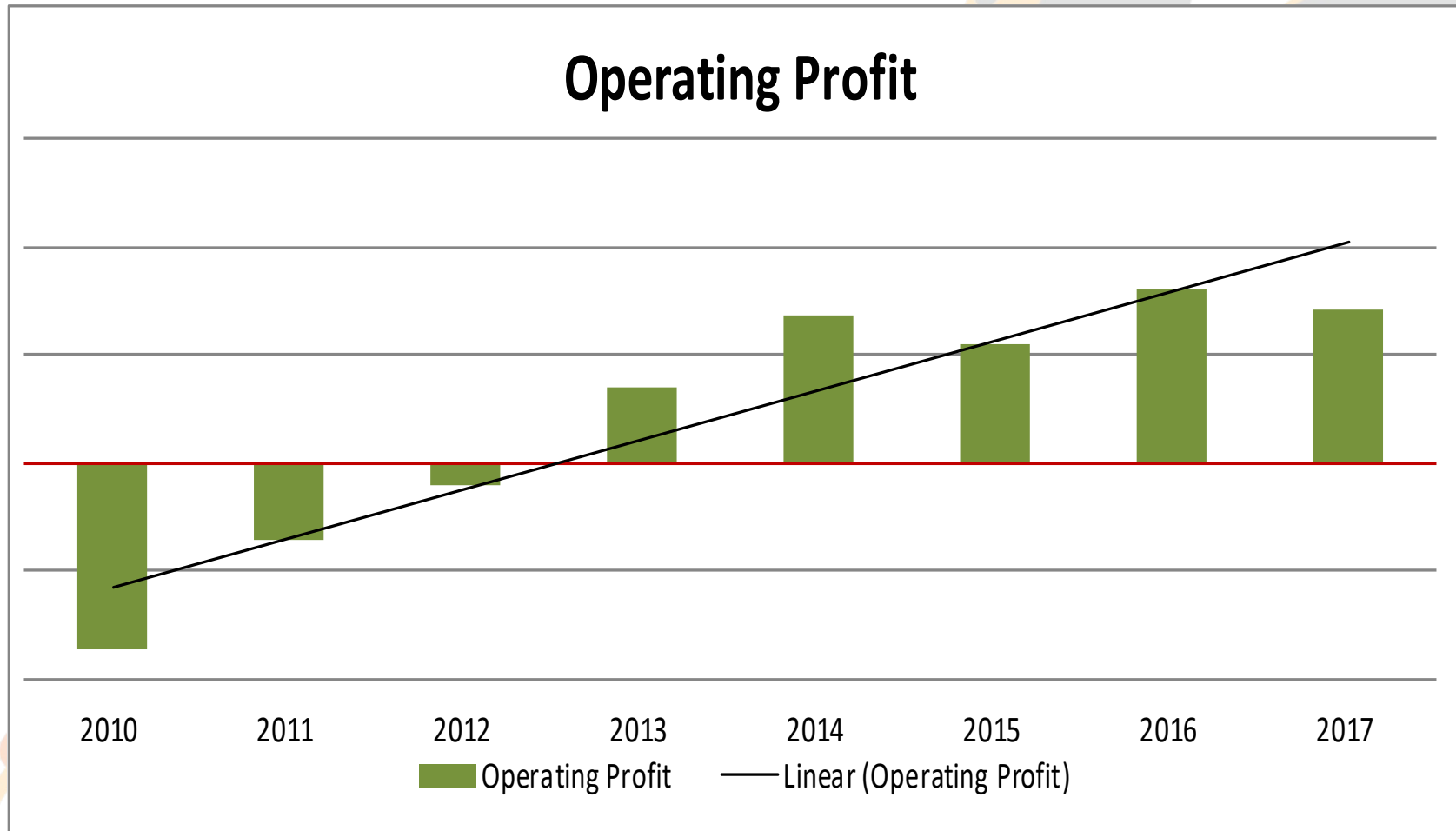
# **Band Business Results**

**(Statement of Operations, Schedules, and  
Corporate Statements)**

# Own Source Revenue Contributions



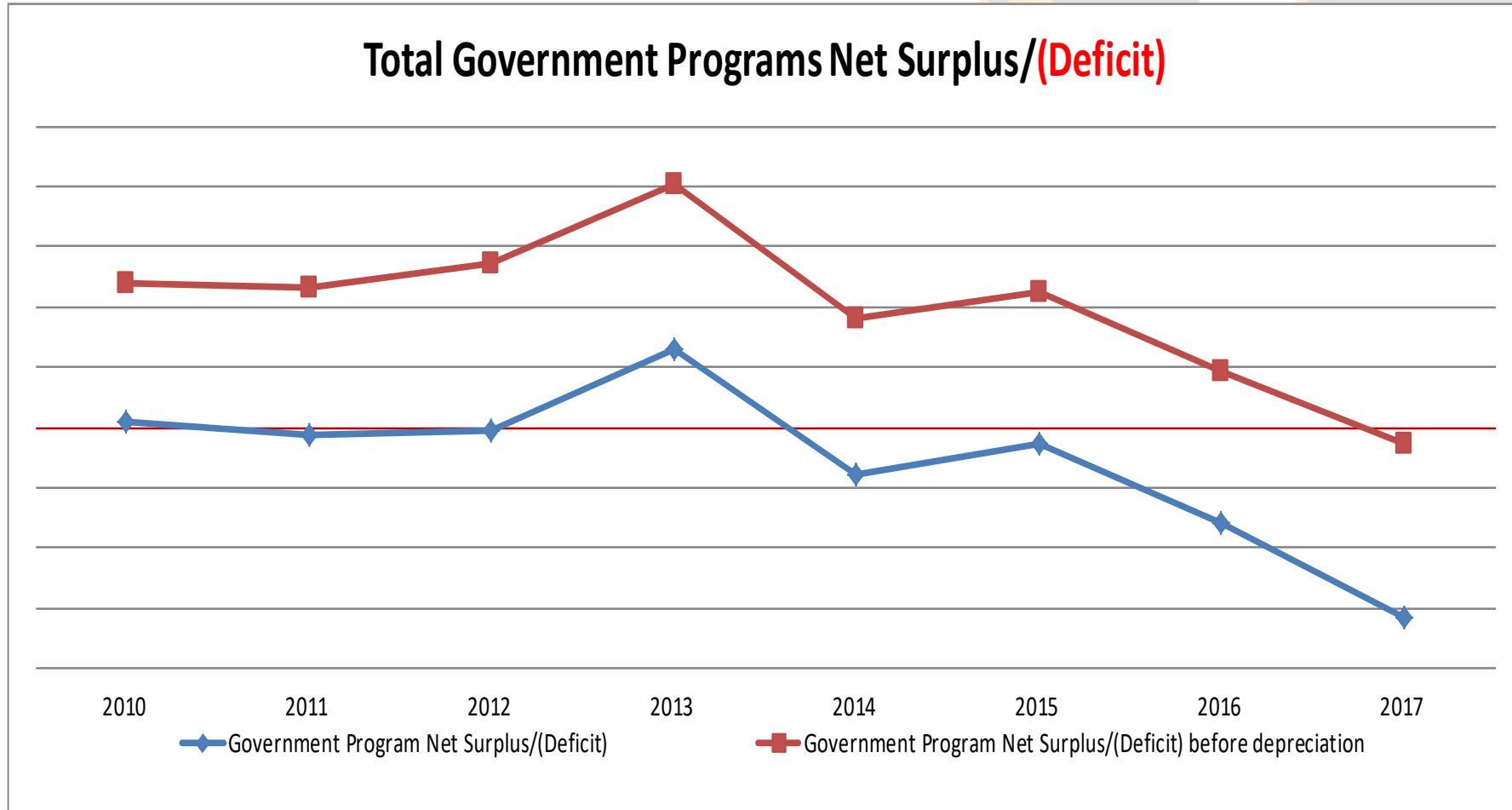
# Band Business Analysis



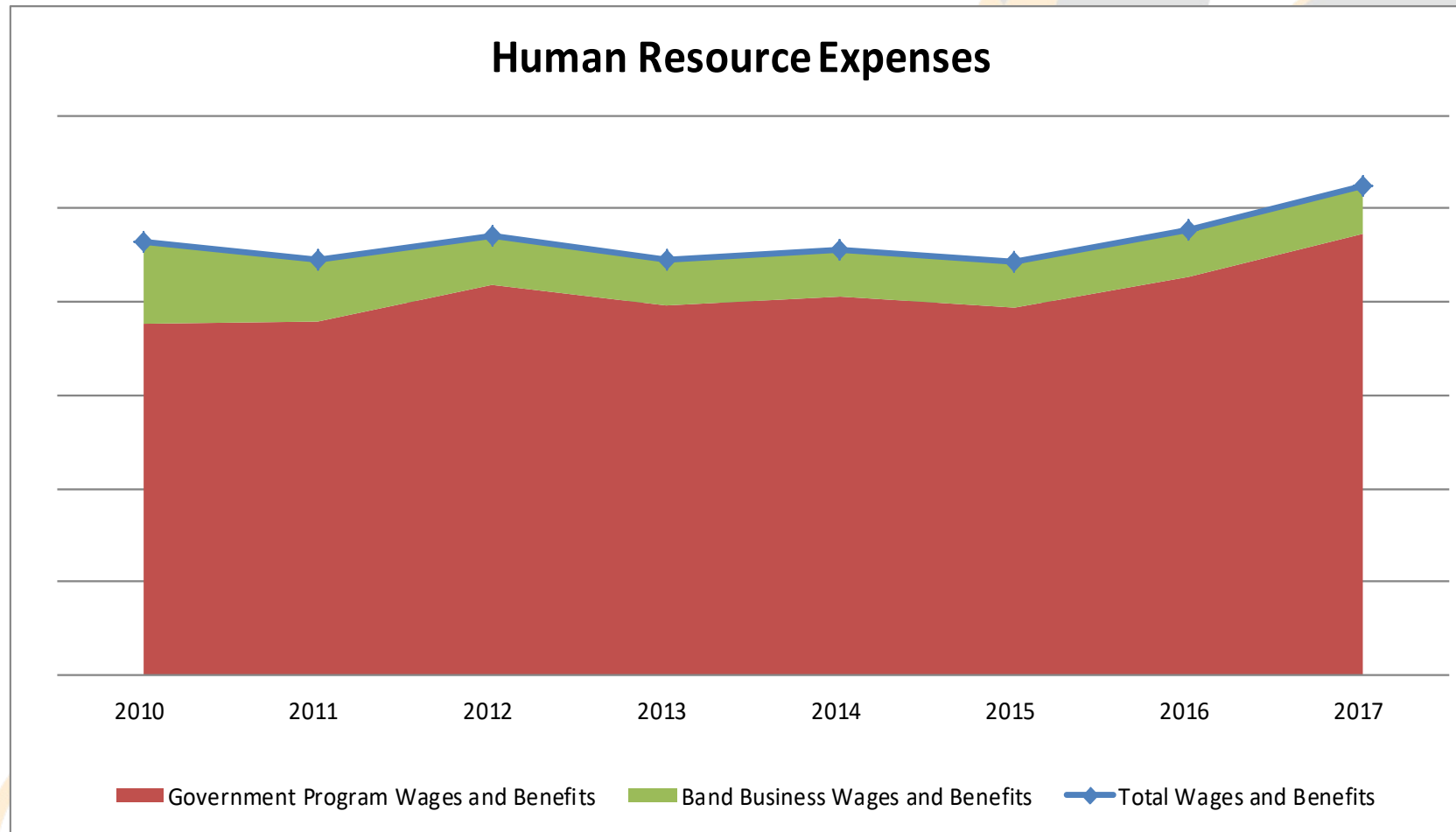
# **Band Program Results**

**(Statement of Operations and Schedules)**

# Program Funding



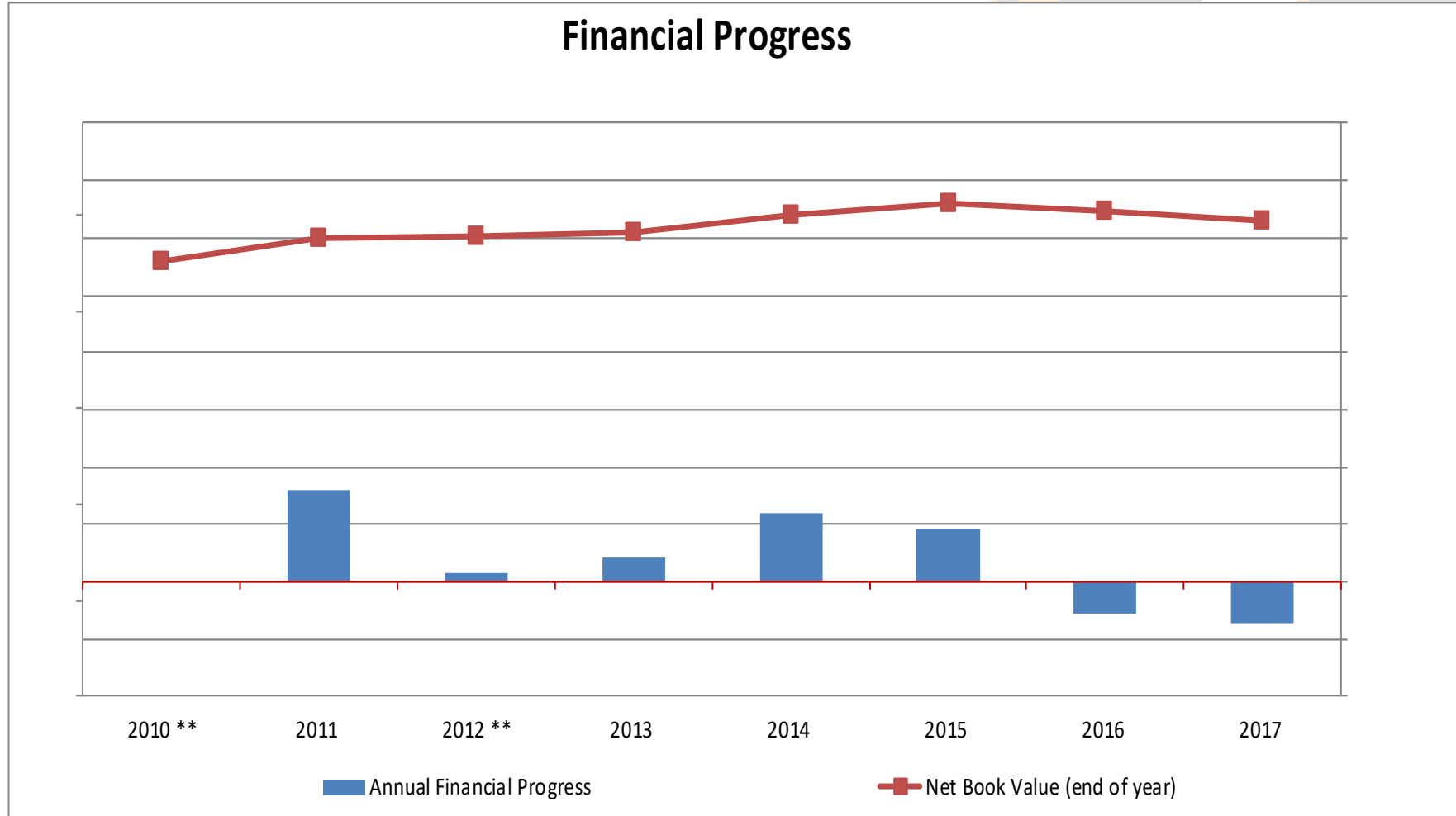
# Salary and Benefits



# Assets, Liabilities, and Equity

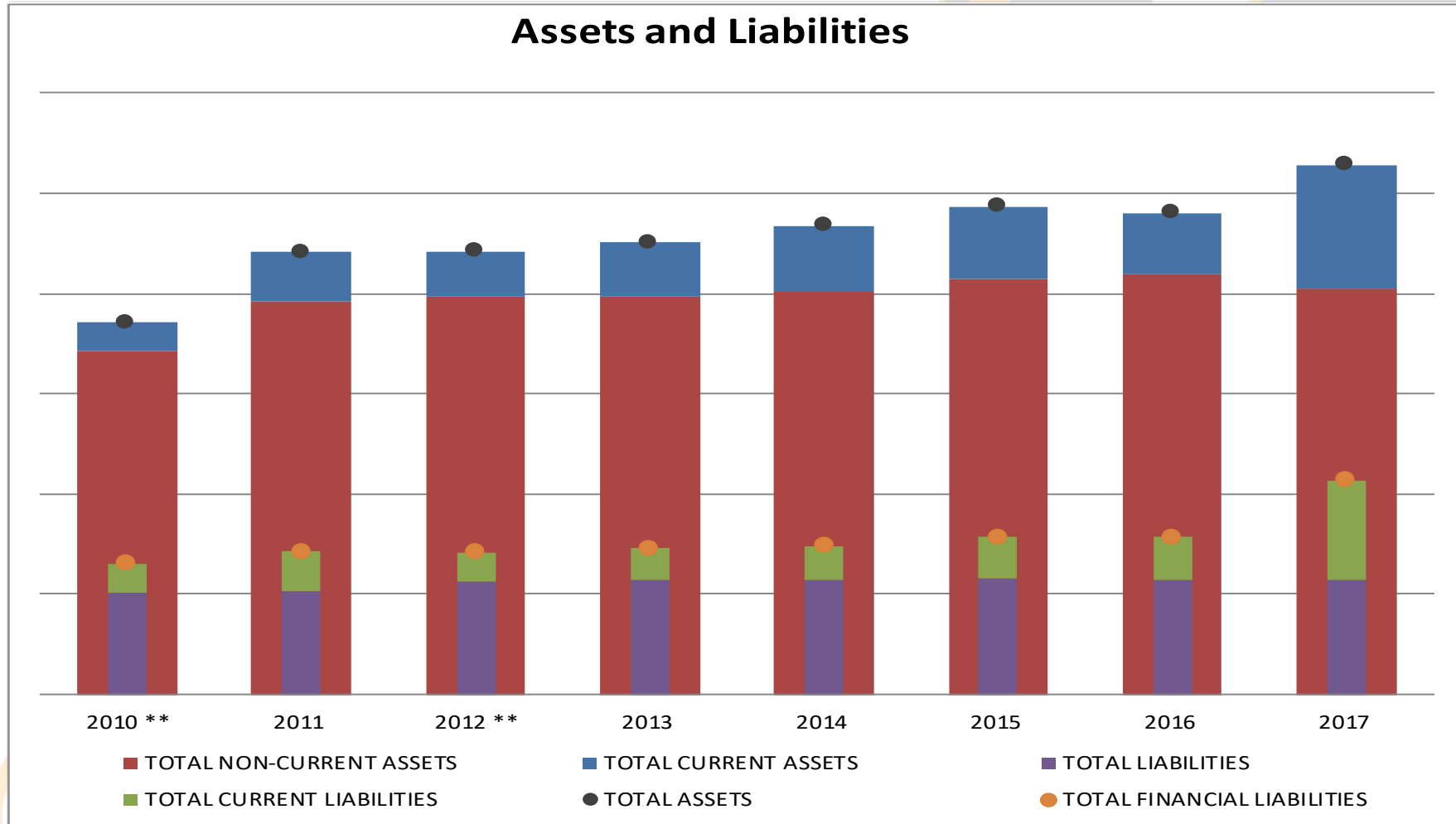
(Statement of Financial Position and Notes)

# Equity

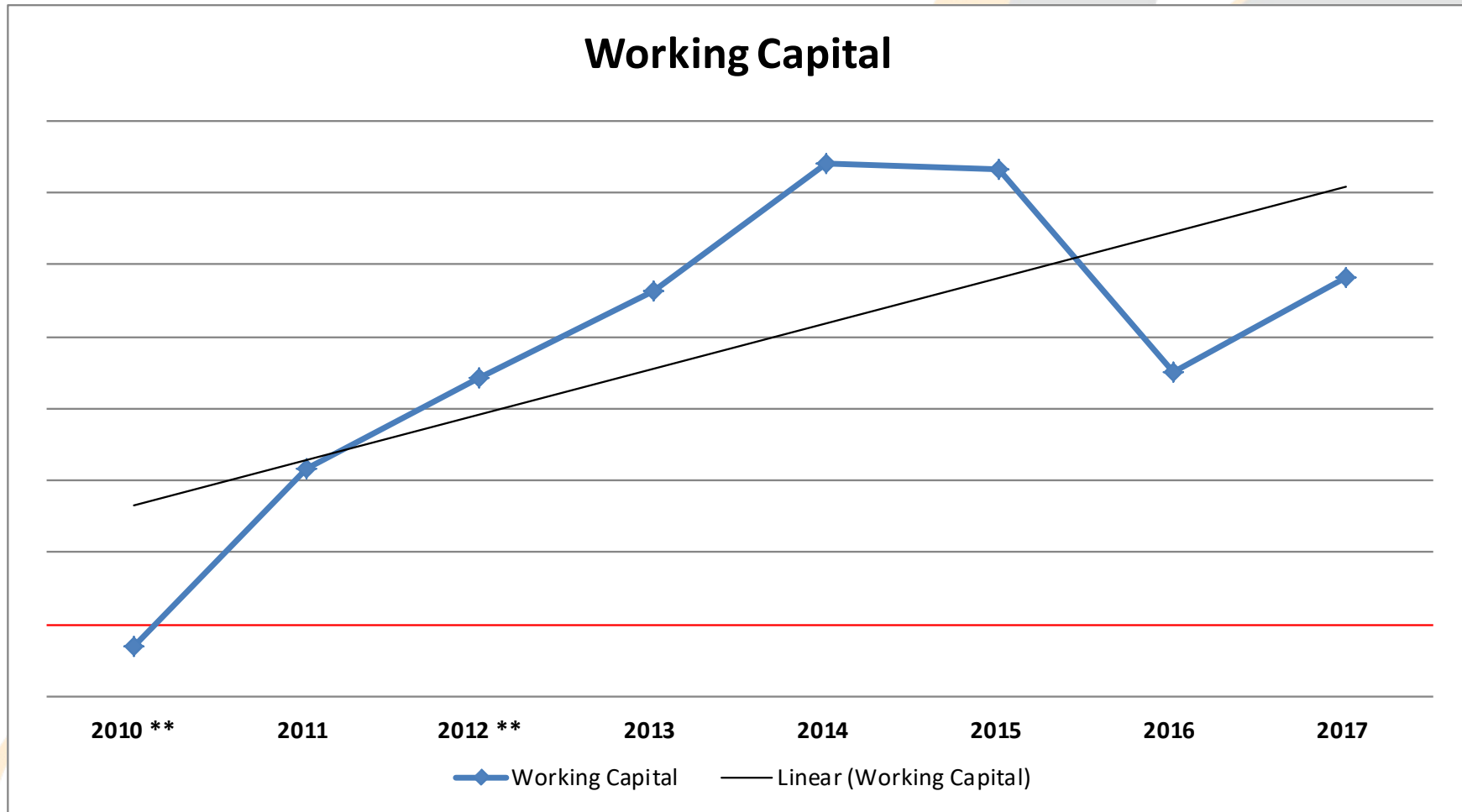




# Assets and Liabilities

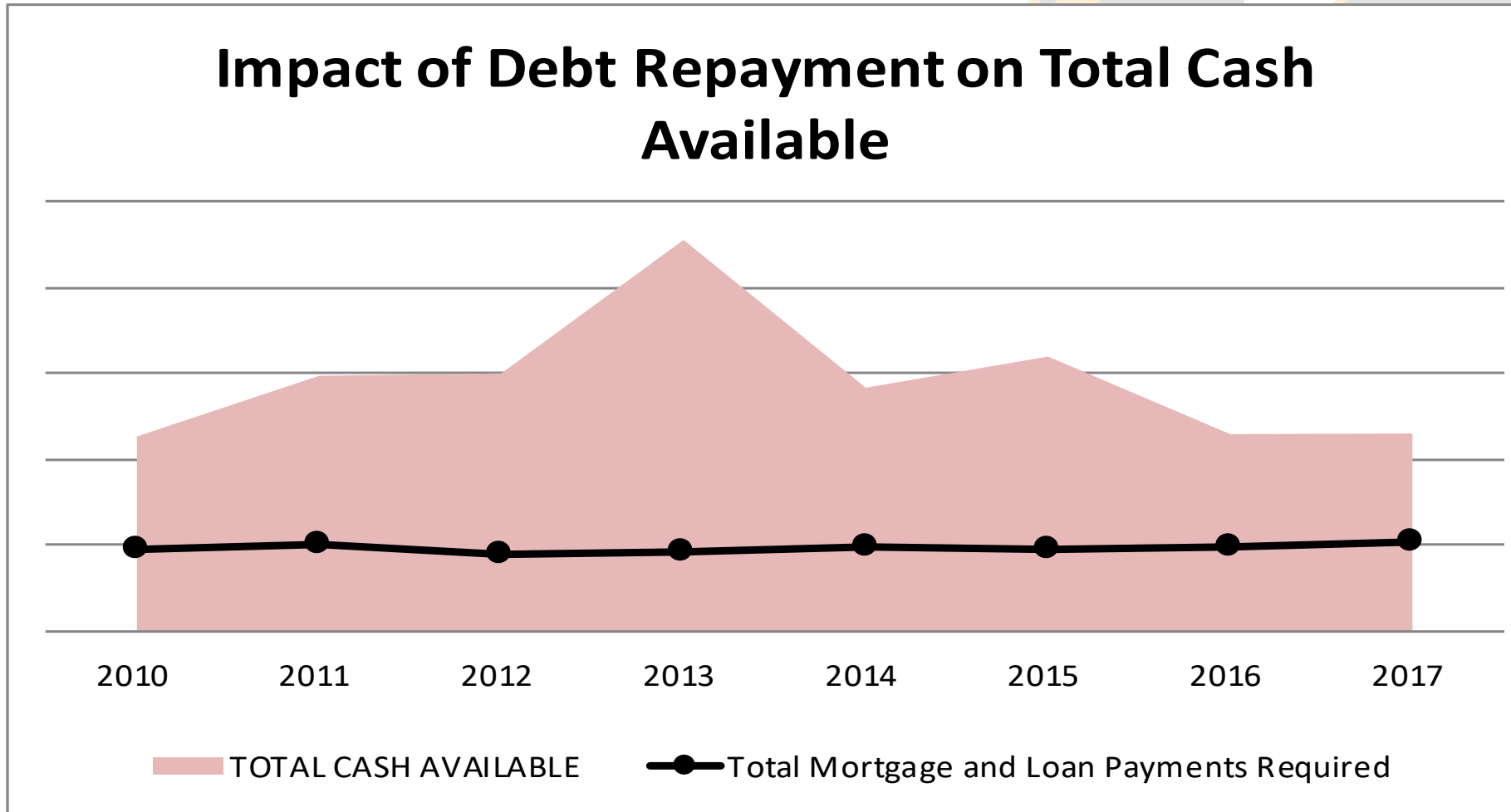


# Working Capital

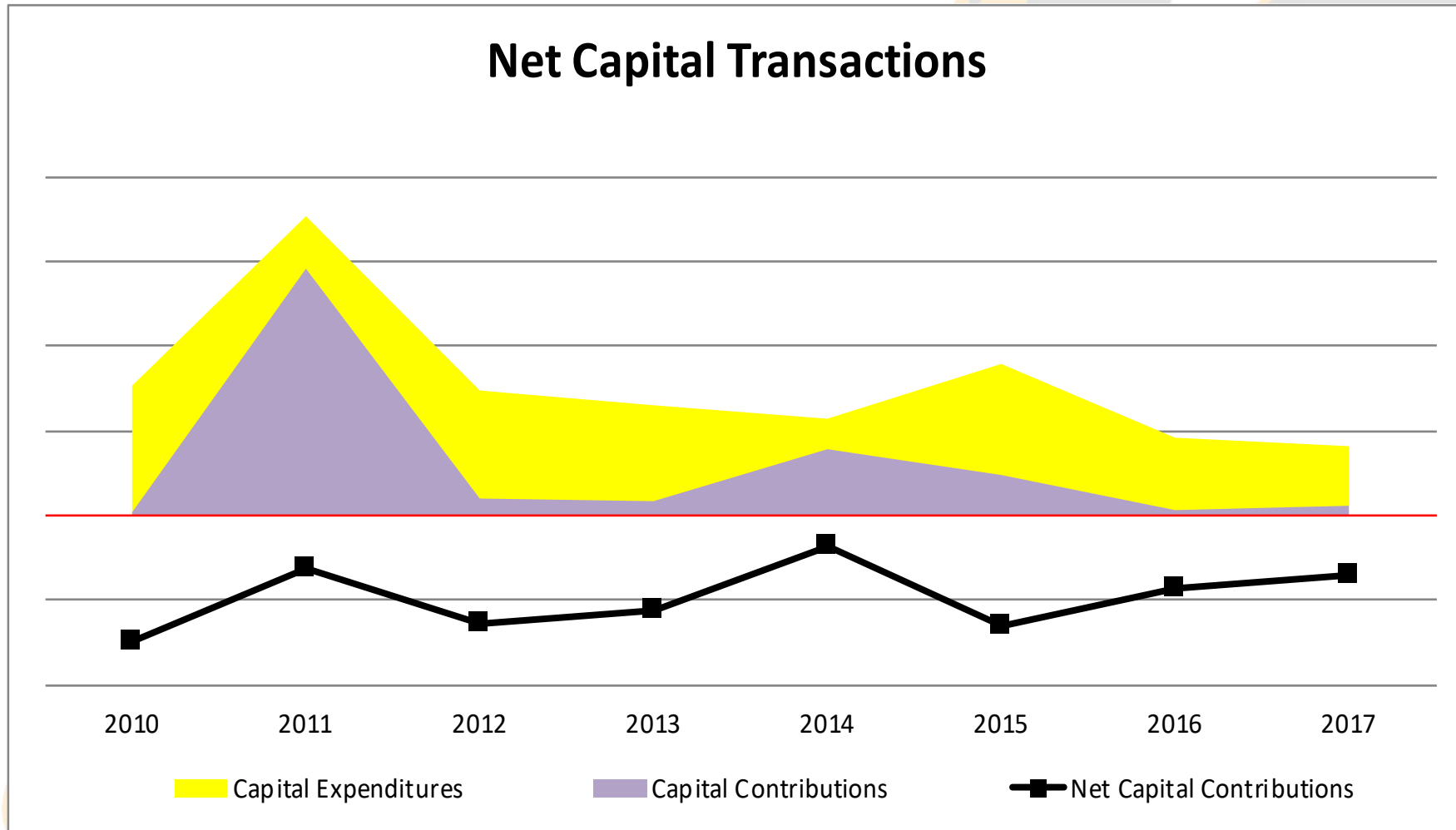


# Cash Flow Analysis

# Analysis of Funds Available – Cash Flow Part 1



# Net Capital Transactions



# Analysis of Funds Available – Cash Flow The Whole Picture

<b>CASH FLOW ANALYSIS</b>	2010	2011	2012	2013	2014	2015	2016	2017	Average
Net Income before Capital Transactions	(58.6)	(2.6)	(24.1)	134.7	(13.7)	26.0	(80.9)	(110.6)	
Depreciation/Amortization (from Cash Flow)	234.5	246.9	281.4	277.6	262.3	255.3	272.6	301.9	
(Gain)/Loss on disposal of assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Interest	50.3	52.6	42.4	42.8	34.5	38.0	37.2	38.3	
<b>TOTAL CASH AVAILABLE</b>	<b>226.2</b>	<b>296.9</b>	<b>299.7</b>	<b>455.1</b>	<b>283.0</b>	<b>319.3</b>	<b>229.0</b>	<b>229.7</b>	<b>292.4</b>
Funds Required (P&I):									
Housing Loans	95.4	99.7	88.3	91.6	97.6	95.9	90.7	94.5	
Term Loan Payments	0.0	0.0	0.0	0.0	0.0	0.0	7.9	7.9	
<b>Total Debt Service Funds required</b>	<b>95.4</b>	<b>99.7</b>	<b>88.3</b>	<b>91.6</b>	<b>97.6</b>	<b>95.9</b>	<b>98.6</b>	<b>102.3</b>	<b>96.2</b>
<b>SURPLUS (SHORTFALL) after debt repayment</b>	<b>130.8</b>	<b>197.2</b>	<b>211.4</b>	<b>363.5</b>	<b>185.5</b>	<b>223.4</b>	<b>130.4</b>	<b>127.3</b>	<b>196.2</b>
Capital Transactions									Cumulative
Capital Expenditures	(307.0)	(707.1)	(293.5)	(260.7)	(228.9)	(274.9)	(176.9)	(160.2)	(2,409.1)
Capital Expenditures - Band Business	0.0	0.0	(2.0)	0.0	0.0	(83.4)	(7.2)	(3.9)	(96.4)
Capital Contributions	8.1	583.2	40.4	34.3	156.9	96.0	13.1	23.4	955.5
<b>NET CAPITAL TRANSACTIONS:</b>	<b>(298.9)</b>	<b>(123.9)</b>	<b>(255.0)</b>	<b>(226.4)</b>	<b>(72.0)</b>	<b>(262.2)</b>	<b>(170.9)</b>	<b>(140.7)</b>	
<b>NET CASH SURPLUS/(SHORTFALL)</b>	<b>(168.1)</b>	<b>73.3</b>	<b>(43.6)</b>	<b>137.1</b>	<b>113.5</b>	<b>(38.9)</b>	<b>(40.5)</b>	<b>(13.3)</b>	
New Long Term Debt	77.4	77.3	150.8	85.9	74.5	81.5	63.3	81.3	
<b>NET CASH SURPLUS/(SHORTFALL) AFTER New LTD</b>	<b>(90.7)</b>	<b>150.6</b>	<b>107.2</b>	<b>223.0</b>	<b>187.9</b>	<b>42.6</b>	<b>22.8</b>	<b>68.0</b>	

Example of additional debt capacity if using 50% of average cash available after debt repayment for additional principal and interest payments.

	5%	8%
10 Years	\$771,000	\$674,000
15 Years	\$1,034,000	\$855,000
20 Years	\$1,239,000	\$977,000

# Highlights

# The section is tailored to each community's results annually to provide a summary of what we saw



- **Revenues**
  - Government revenues have grown by almost
  - Band business gross profit has fluctuated through the years, and was \$2.5M in 2019.
- **Band Businesses**
  - Band businesses posted an operating loss
  - Fisheries, which is normally a profit centre, posted a small operating loss.
- **Band Programs**
  - Band Programs continue to operate at a small surplus before depreciation
  - Wages topped out in \$5M.
- **Assets, Liabilities and Equity**
  - There has been significant investment in the community which has led to equity rising to \$xx.xM
  - Working capital has seen a downward trend over the last x years, indicating possible strains in managing day to day cash flow and annual debt repayment.
- **Cash Flow**
  - The band has invested \$XXM in the community in the last 10 years. \$XM has been covered by the band through a combination of surpluses/working capital and new Long Term Debt.



# 10-Year Grant Funding Mechanism Ratios

(FBFMB Financial Performance Ratios)

# For a First Nation government to be eligible for a 10-Year Grant it must:



1. To initiate a 10-year grant, a First Nation government must provide a written request to the department expressing its interest. Once an expression of interest has been received, officials from ISC and the FMB will contact the Nation to provide guidance on meeting eligibility criteria. ISC will make the final decision on eligibility, based on the following co-developed approach with the AFN and FMB:
2. A First Nation government wishing to be eligible for the 10-year grant must have in place a financial administration law. A financial administration law is a set of financial and governance practices that assist a First Nation government in making informed financial decisions and can be passed either under the Indian Act or the First Nations Fiscal Management Act.
3. A First Nation government's financial statements for the preceding 5-year period must be in substantial compliance with certain financial performance standards as of March 31 the previous fiscal year.
  - a) An average “fiscal growth ratio” (FGR) of no lower than minus 5%;
  - b) An average “operating margin ratio” (OMR) of no lower than minus 5%;
  - c) An average “asset maintenance ratio” (AMR) of no lower than 100%;
  - d) A weighted average “net debt ratio” (NDR) of no more than 60%; or a “NDR” for the most recent year of no more than 60% and,
  - e) An average “interest expense ratio” (IER) of no more than 5%.

## Financial Performance Ratios Defined:

- **Fiscal Growth Ratio (FGR):** measures ability to sustain and grow revenues
  - A growth rate of 0 or better indicates that revenue is growing. A growth rate of less than 0 indicates that revenue is shrinking which could mean an unsustainable trend that could put fiscal stress on ability to maintain ability to meet government program/service requirements, infrastructure spending, or servicing debt. Threshold is no lower than -5%.
  - $$\frac{\text{Total Revenue Current Year} - \text{Total Revenue Previous Year}}{\text{Total Revenue Previous Year}}$$
- **Operating Margin Ratio (OMR):** measures ability to balance revenues and expenses to maintain operations.
  - The measure indicates whether the first nation is spending beyond its revenue base and thus exerting fiscal stress on its financial capacity. A cumulative positive OMR indicates fiscal balance has been maintained, whereas a pattern of deficits signals fiscal imbalance and a need to fund deficits by borrowing. Threshold is no lower than -5%.
  - $$\frac{\text{Total Revenue} - \text{Total Expenses}}{\text{Total Revenue}}$$

## Ratios Defined:

- **Asset Management Ratio (AMR):** ) assesses if a community is investing enough to maintain its capital assets, and add new assets.
  - An AMR of less than 100% over extended years can create fiscal stress in the future. Delayed maintenance or replacement of capital assets may result in outdated assets which affect the first nation's ability to provide programs and services. Threshold is no lower than 100%
  - $$\frac{\text{Total Tangible Capital Asset Expenditures}}{\text{Amortization Expense}}$$
- **Net Debt Ratio (NDR):** measures a First Nation's ability to manage its overall level of debt.
  - The NDR indicates whether a first nation's debt load is sustainable or potentially restricting its financial flexibility to incur more debt. An increasing NDR indicates total debt is becoming more onerous on the first nation which could lead to long-term sustainability concerns. A decreasing NDR indicates the first nation's capacity to incur more debt is strengthening. Threshold is no more than 50%.
  - $$\frac{\text{Total Liabilities less Total Financial Assets}}{\text{Total Revenue}}$$
- **Interest Expense Ratio (IER):** measures a First Nation's ability to manage the interest payments on its debt.
  - The IER measures the size of the first nation's interest expense burden in relation to annual revenue. Threshold is no more than 5%
  - $$\frac{\text{Interest Expense}}{\text{Total Revenue}}$$

# Ratio Calculation

<b>RATIO</b>	<b>THRESHOLD</b>	<b>ACTUAL</b>	<b>MET?</b>
Fiscal Growth Ratio (FGR):	No Lower than -5%	8.41%	<b>YES</b>
Operating Margin Ratio (OMR):	No Lower than -5%	0.22%	<b>YES</b>
Asset Maintenance Ratio (AMR)	No lower than 100%	111.54%	<b>YES</b>
Net Debt Ratio (NDR)	No more than 50%	44.76%	<b>YES</b>
Interest Expense Ratio	No more than 5%	2.26%	<b>YES</b>

## First Nations Fiscal Management Act, 2005.

### ❖ First Nations Financial Management Board or FMB

- First Nations have always planned beyond the 7<sup>th</sup> generation. *The First Nations Fiscal Management Act* (FMA), a First Nation's led initiative, supports the ability of First Nations to develop the capacity and secure the money to plan and bring to life a 7th generation strategy. The FMA puts First Nations governments on the same playing field as other governments and public institutions. It allows First Nations to be eligible to borrow at similar rates and terms other governments in Canada enjoy. It also allows Nations to use different revenue streams like taxation, government transfers and economic development as security for borrowing under the FMA. The FMB is one of three First Nations institutions created under the FMA. We're here to support First Nations to put in place good governance and finance practices to achieve their goals.

<https://fnfmb.com/en/about-fmb>

### ❖ First Nations Finance Authority or FNFA

- The FNFA's purposes are to provide First Nations governments investment options and capital planning advice and—perhaps most importantly, access to long-term loans with preferable interest rates. The FNFA is not an agent of Her Majesty or a Crown corporation and is governed solely by the First Nations communities that join as Borrowing Members.

<https://fnfa.ca/en/fnfa/>

### ❖ First Nations Tax Commission or FNTC

- The mission of the FNTC is to help First Nation governments build and maintain fair and efficient property tax regimes and to ensure those First Nation communities, and their taxpayers alike, receive the maximum benefit from those systems. It will achieve this mission by working with First Nations and stakeholders

<https://fntc.ca/en/about-fntc/>

# Impact of Modified Equity Method

# Contact Information

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**EMPOWERING THE SPIRIT  
OF INDIGENOUS  
ENTREPRENEURSHIP AND  
COMMUNITY BUILDING IN  
ATLANTIC CANADA**