Financial Statements of

FIRST NATIONS FINANCE AUTHORITY

Year ended March 31, 2014

Statement of Management Responsibility

The financial statements of First Nations Finance Authority (the "FNFA") for the year ended March 31, 2014 have been prepared by management in accordance with Canadian public sector accounting standards ("PSAS"). The integrity and objectivity of these statements are management's responsibility. Management is also responsible for all the statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee. The Audit Committee meets with management no fewer than four times a year and the external auditors a minimum of two times a year.

The external auditors, KPMG LLP, conduct an independent examination, in accordance with Canadian generally accepted auditing standards, and express their opinion on the financial statements. Their examination considers internal control relevant to management's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purposes of expressing an opinion on the effectiveness of the FNFA's internal control. The external auditors have full and free access to the Audit Committee.

On behalf of First Nations Finance Authority

Chief Executive Officer
May 29, 2014

KPMG LLP
Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Members of First Nations Finance Authority

We have audited the accompanying financial statements of First Nations Finance Authority, which comprise the statement of financial position as at March 31, 2014, the statements of operations, changes in net financial assets and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of First Nations Finance Authority as at March 31, 2014 and its results of operations, its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants

May 29, 2014
Kelowna, Canada

FIRST NATIONS FINANCE AUTHORITY

Statement of Financial Position

March 31, 2014, with comparative figures for 2013

	2014	2013
Financial Assets		
Cash and cash equivalents	$ 174,392	$ 363,554
Credit Enhancement Fund assets (note 2)	10,000,000	10,503,810
Accounts receivable	2,899	2,358
Investments (note 3(a))	2,744,651	1,046,056
Interim financing loans to members (note 4(a))	54,142,894	20,777,505
Restricted cash and cash equivalents	678,307	324,035
	67,743,143	33,017,318
Liabilities		
Accounts payable and accrued liabilities	233,950	149,833
Due to members (note 3(b))	2,744,671	1,046,056
Interim financing (note 4(b))	54,048,958	20,776,000
Principal and interest payments received in advance	354,272	-
	57,381,851	21,971,889
Net Financial Assets	10,361,292	11,045,429
Non-Financial Assets		
Tangible capital assets (note 5)	52,701	54,338
Prepaid expenses	44,846	18,483
	97,547	72,821
Commitments and contingencies (note 9)		
Accumulated surplus (note 6)	$ 10,458,839	$ 11,118,250

See accompanying notes to financial statements.

On behalf of the Board:

Director

Chief Executive Officer

FIRST NATIONS FINANCE AUTHORITY

Statement of Operations

Year ended March 31, 2014, with comparative figures for 2013

	2014 Budget (note 1(g))	2014	2013
Revenue			
Grants and contributions (note 7)	$ 1,508,880	$ 1,508,880	$ 1,112,460
Interest from members (note 4(c))	-	824,989	298,900
Investment income (note 8)	131,400	133,365	137,104
Management fees	64,000	3,704	9,707
	1,704,280	2,470,938	1,558,171
Expenses (note 1(h))			
Interest on interim financing (note 4(c))	-	770,328	276,115
Professional fees	462,000	878,886	340,807
Travel and workshops	312,200	168,833	219,649
Salaries and benefits	850,000	780,124	704,786
Financing fees	-	137,226	-
Operation and management	571,980	376,290	441,544
Amortization of tangible capital assets (note 5)	-	18,662	44,679
	2,196,180	3,130,349	2,027,580
Deficit (note 1(g) and 6)	(491,900)	(659,411)	(469,409)
Accumulated surplus, beginning of year	11,118,250	11,118,250	11,587,659
Accumulated surplus, end of year	$ 10,626,350	$ 10,458,839	$ 11,118,250

See accompanying notes to financial statements.

FIRST NATIONS FINANCE AUTHORITY

Statement of Changes in Net Financial Assets

Year ended March 31, 2014, with comparative figures for 2013

	2014 Budget (note 1(g))	2014	2013
Deficit	$ (491,900)	$ (659,411)	$ (469,409)
Changes to non-financial assets			
Acquisition of tangible capital assets (note 5)	-	(17,025)	(11,575)
Amortization of tangible capital assets (note 5)	-	18,662	44,679
	-	1,637	33,104
Net change in prepaid expenses	-	(26,363)	2,495
	-	(24,726)	35,599
Decrease in net financial assets	(491,900)	(684,137)	(433,810)
Net financial assets, beginning of year	11,045,429	11,045,429	11,479,239
Net financial assets, end of year	$ 10,553,529	$ 10,361,292	$ 11,045,429

See accompanying notes to financial statements.

FIRST NATIONS FINANCE AUTHORITY

Statement of Cash Flows

Year ended March 31, 2014, with comparative figures for 2013

	2014	2013
Cash provided by (used in):		
Operating transactions:		
Deficit	$ (659,411)	$ (469,409)
Amortization of tangible capital assets	18,662	44,679
Amortization of deferred financing fees	11,478	-
Net change in non-cash assets and liabilities:		
Accounts receivable	(541)	(275)
Prepaid expenses	(26,363)	2,495
Accounts payable and accrued liabilities	84,117	(10,934)
	(572,058)	(433,444)
Investing transactions:		
Net decrease in Credit Enhancement Fund assets	503,810	424,730
Interim financing loans to members	(33,565,389)	(20,777,505)
Repayment of interim financing loans to members	200,000	-
Acquisition of investments	(1,698,595)	(1,046,056)
Increase in amounts due to members	1,698,595	1,046,056
Increase in restricted cash	(354,272)	-
Principal and interest payments received in advance	354,272	-
	(32,861,579)	(20,352,775)
Financing transactions:		
Proceeds from interim financing	54,120,000	20,776,000
Repayment of interim financing	(20,776,000)	-
Deferred financing fees paid	(82,500)	-
	33,261,500	20,776,000
Capital transactions:		
Purchase of tangible capital assets	(17,025)	(11,575)
Decrease in cash and cash equivalents	(189,162)	(21,794)
Cash and and cash equivalents, beginning of year	363,554	385,348
Cash and cash equivalents, end of year	$ 174,392	$ 363,554

See accompanying notes to financial statements.

First Nations Finance Authority ("FNFA") was announced April 1, 2006 as a result of Bill C-20 and operates under the *First Nations Fiscal Management Act* (the "Act") as a not for profit corporation without share capital to develop borrowing capacity for First Nations governments and to provide investment pooling arrangements for its investing members. FNFA, through an agreement with the Municipal Finance Authority of British Columbia ("MFA"), acts as a non assignable corporate investment vehicle with MFA for the provision of investment services for FNFA unit holders. FNFA is exempt from income taxes pursuant to Section 149 (1)(c) and 149 (1)(d.5) of the Income Tax Act (Canada).

1. Significant accounting policies:

The financial statements of FNFA have been prepared by management in accordance with Canadian Public Sector Accounting Standards, applying the following significant accounting policies.

(a) Basis of presentation:

These financial statements reflect the assets, liabilities, revenues and expenses of FNFA's Operating, Credit Enhancement, Sinking and Debt Reserve funds. As at and for the year ended March 31, 2014, the Operating, Credit Enhancement and a Debt Reserve Fund were utilized. All transactions and balances between the funds have been eliminated upon combination. Descriptions of FNFA's funds are as follows:

Operating Fund:

FNFA has established an Operating Fund to meet the annual operating budget. In addition to funds received from grants and interest, the Operating Fund receives management fees from the Pooled Investment Funds and pays the cost of their operations.

Credit Enhancement Fund:

Under the Act, FNFA is required to establish a Credit Enhancement Fund ("CEF") for the enhancement of FNFA's credit rating (note 2).

Sinking Fund:

Under the Act, FNFA is required to establish a Sinking Fund to fulfill its repayment obligations to the holders of each debenture security issued by FNFA. No debenture security was outstanding as at March 31, 2014. A Sinking Fund is not required for interim financing loans to members.

1. Significant accounting policies: (continued):

(a) Basis of presentation (continued):

Debt Reserve Funds:

Under the Act FNFA is required to establish one or more Debt Reserve Funds. If at any time FNFA lacks sufficient funds to meet the principal, interest or sinking fund payments due on its obligations because of a default in payment by a borrowing member it can utilize the Debt Reserve Funds to satisfy these obligations.

FNFA follows the accrual method of accounting for revenues and expenses. Revenues are normally recognized in the year in which they are earned and measurable (note 1(b)). Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(b) Revenue recognition:

Transfers from governments are recognized as revenue in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made. Transfers which include stipulations that give rise to an obligation are recognized as revenue in the period the stipulations giving rise to the obligation have been met.

Interest on loans to members is recorded as revenue in the period in accordance with FNFA's loan agreements with members. Investment income is recorded as revenue in the period earned.

(c) Cash and cash equivalents:

Cash and cash equivalents includes cash and investments in highly liquid money market funds, with a term to maturity of 90 days or less and are readily convertible to cash.

1. Significant accounting policies: (continued):

(d) Financial instruments:

Financial instruments are initially classified upon initial recognition as a fair value or an amortized cost instrument. The fair value category includes investments in equity instruments that are quoted in an active market, and any other items elected by FNFA to be recorded at fair value. All other financial instruments are recorded at amortized cost. Transaction costs directly attributable to the acquisition or issue of a financial instrument are added to the amortized cost or expensed if related to instruments recorded on a fair value basis. The effective interest rate method is used to measure interest for financial instruments recorded at amortized cost.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss, calculated as the excess of the net recoverable amount of the asset and its carrying value, is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

As at March 31, 2014, FNFA does not have any financial instruments that required or were elected to be recorded at fair value. Accordingly a statement of remeasurement gain (loss) has not been presented.

(e) Tangible capital assets:

Tangible capital assets are recorded at cost, net of accumulated amortization. Contributed tangible capital assets are recorded at fair value at the date of contribution and are also recorded as revenue. When management determines that a tangible capital asset no longer contributes to FNFA's operations, the tangible capital asset's net book value is written down to its net realizable value. Amortization is provided over the assets' estimated useful life at the following bases and annual rates:

Asset	Basis	Rate
Furniture and equipment	Declining balance	20%
Computer equipment	Declining balance	30 - 45%
Leasehold improvements	Straight-line	lesser of lease term and 20%

1. Significant accounting policies: (continued):

(f) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates. Significant areas requiring management estimates include the net recoverable amount and any impairment of financial assets and the fair value of financial liabilities on issuance. Actual amounts can differ from these estimates.

(g) Budget data:

The budget data presented in these financial statements have been derived from the budget approved by the Board of Directors on July 4, 2013. The approved budget projected a deficit for the year of $491,900, to be partially funded from previous years surplus in the Credit Enhancement Fund (note 6(c)).

(h) Segmented disclosure:

A segment is defined as a distinguishable activity or group of activities of a government for which it is appropriate to separately report financial information to achieve the objectives of the standard. FNFA has determined that it had only one operating segment for the year ended March 31, 2014. Accordingly, segmented disclosures have not been presented in these financial statements.

2. Credit Enhancement Fund assets:

FNFA entered into an agreement with Aboriginal Affairs and Northern Development Canada ("AANDC"), on March 24, 2011 to transfer funds to FNFA for deposit into the Credit Enhancement Fund ("CEF") (note 1(a)).

The funds of the CEF may be invested only in securities, investments or deposits specified under the Act. Investment income from the CEF may be used to temporarily offset shortfalls in the Debt Reserve Funds, to defray FNFA's costs of operation, and for any other purpose prescribed by regulation. The capital of the CEF may be used to temporarily offset shortfalls in the Debt Reserve Funds and for any other purpose prescribed by regulation.

The funding agreement includes provisions pursuant to which FNFA may be required to repay all or a portion of the $10.0 million contribution. The original agreement was amended on March 29, 2012, November 15, 2012 and March 25, 2014 to include the following amended provisions:

i) If FNFA does not issue a bond in accordance with the Act by June 30, 2014, FNFA could be required to repay the contribution by July 30, 2014. The Agreement may be further amended by written request of FNFA to AANDC.

ii) The Minister of AANDC has the right to require the Authority to return the transferred funds if, in the Minister's opinion, FNFA does not make adequate progress towards its first bond issue. The Minister has not, to the date of these financial statements, given any indication that, in their opinion, FNFA has not made adequate progress.

iii) If the FNFA does not issue bonds that, in aggregate, are equal to or greater than $40.0 million at any time up to and including June 30, 2014, the FNFA may be required to repay all or a portion of the contribution.

The CEF assets, as at March 31, 2014 consist of cash and cash equivalents.

3. Debt Reserve Fund:

a) Investments:

Debt Reserve Fund investments consists of cash and cash equivalents held by FNFA as security for debenture payments to bondholders and interim financing providers. If, at any time, FNFA does not have sufficient funds to meet payments or sinking fund contributions due on its obligations, the payments or sinking fund contributions will be made from the Debt Reserve Fund.

b) Due to members:

Amount due to members in the Debt Reserve Fund will be repaid to a member when the member has satisfied all obligations related to the applicable loan agreement. The balance owing to members as at March 31, 2014 is due on demand, upon extinguishment of the underlying loan, consistent with the term of the financing agreements.

4. Interim financing:

a) Interim financing loans to members:

Interim financing loans to members as at March 31, 2014 consists of loans to nine (2013 - three) borrowing members with a total face value of $54,142,894 (2013 - $20,777,505). The loans bear interest at 2.6% (2013 - 2.50%) and are due on the earlier of demand or the expiry of FNFA's credit facility described in note 5(b). The interim financing loans have been issued by FNFA in anticipation of a bond issuance by FNFA. The interim financing loans will be replaced by long-term financing agreements upon the issuance of such securities and the earlier of five years from the date of the issuance of the interim financing or the completion by the member of the purpose, as defined in their borrowing agreement, for the FNFA financing.

4. Interim financing (continued):

a) Interim financing loans to members (continued):

The interim financing loans require monthly interest only payments by the members, arising from member revenues as specified in the members' Borrowing Law, into a Secured Revenues Trust Account ("SRTA"), as governed by a Secured Revenues Trust Account Management Agreement between the member and FNFA. As directed by FNFA, the following amounts are withdrawn from the SRTA:

- Monthly interest payments to FNFA under the terms of the respective Borrowing Agreements; and
- The excess in the SRTA may be paid to the member based on the terms of their respective Borrowing Agreement.

FNFA conducts periodic evaluations of its loans to members to determine if the loans are impaired. No impairment provision has been recorded to March 31, 2014. A reduction in the carrying value of a loan may be recovered by a transfer from the applicable Debt Reserve Fund and, ultimately, intervention with First Nations Management Board on eligible revenue streams if it is believed that payments under the loan agreements may not be recovered within a reasonable period of time.

b) Interim financing:

	2014	2013
National Bank of Canada ("National Bank"), revolving credit facility:		
Prime rate loan	$ 40,000,000	$ -
Bankers acceptance liabilities	14,120,000	-
	54,120,000	-
Deferred financing fees	(71,042)	-
	54,048,958	-
Non-revolving credit facility refinanced in the year	-	20,776,000
	$ 54,048,958	$ 20,776,000

4. Interim financing (continued):

b) Interim financing (continued):

The National Bank revolving credit facility is available up to a maximum aggregate amount of $100 million, conditional upon FNFA satisfying certain conditions precedent in the revolving credit facility agreement, including obtaining credit ratings for its senior unsecured debt and completion of a successful senior debt issuance. The maximum available facility prior to the satisfaction of the conditions precedent, and as at March 31, 2014, is $55,000,000. The revolving credit facility is available through the issuance of loans bearing interest calculated in relation to the lender's prime rate ("Prime Rate Loans") or the issuance of bankers acceptances ("Bankers Acceptance Liabilities"). The Prime Rate Loan as at March 31, 2014 bears interest at the lender's prime rate plus 0.25% (3.25% at March 31, 2014) with interest-only payments on a monthly basis. The Bankers Acceptance Liabilities as at March 31, 2014 bear interest at the lender's 30 to 60 day bankers' acceptance fee (average rate of 1.2205%) plus a stamping fee of 1.25%. Amounts borrowed under the revolving credit facility are due the earlier of the terms of FNFA's interim financing loans to members (note 4(a)) and October 22, 2016.

The interim financing is secured by first ranking liens on all real and personal, corporeal and incorporeal, present and future assets, including on all of the accounts of FNFA and the debt accounts of members with outstanding loans and the rights of FNFA in the Secured Revenues Trust Account (“SRTA”) and the Property Tax Trust Accounts (“PTTA”). Each member with loans secured by “other revenues” must establish a SRTA and enter into a SRTA Management Agreement in respect to the account. Where there are “local revenues”, a PTTA must be established and a PTTA Management Agreement in respect of the account.

c) Net interest on interim financing:

Interest received from members for the year-ended March 31, 2014 was $824,989 (2013 - $298,900). Interest expense on interim financing for the year-ended March 31, 2014 was $770,328 (2013 - $276,115).

5. Tangible capital assets:

March 31, 2014	Furniture and equipment	Computer equipment	Leasehold improvements	Total
Costs:				
Balance, beginning of year	$ 43,229	$ 109,169	$ 115,709	$ 268,107
Additions	6,936	10,089	-	17,025
Balance, end of year	50,165	119,258	115,709	285,132
Accumulated amortization:				
Balance, beginning of year	28,368	69,692	115,709	213,769
Amortization	3,897	14,765	-	18,662
Balance, end of year	32,265	84,457	115,709	232,431
Net book value, end of year	$ 17,900	$ 34,801	$ -	$ 52,701

March 31, 2013	Furniture and equipment	Computer equipment	Leasehold improvements	Total
Costs:				
Balance, beginning of year	$ 44,575	$ 101,096	$ 115,709	$ 261,380
Additions	-	11,575	-	11,575
Write-downs/disposals	(1,346)	(3,502)	-	(4,848)
Balance, end of year	43,229	109,169	115,709	268,107
Accumulated amortization:				
Balance, beginning of year	25,642	55,551	92,745	173,938
Amortization	4,072	17,643	22,964	44,679
Write-downs/disposals	(1,346)	(3,502)	-	(4,848)
Balance, end of year	28,368	69,692	115,709	213,769
Net book value, end of year	$ 14,861	$ 39,477	$ -	$ 54,338

6. Accumulated surplus:

a) Accumulated surplus consists of the individual fund surpluses and reserves as follows:

	2014	2013
Accumulated surplus:		
Credit Enhancement Fund	$ 10,000,000	$ 10,503,810
Operating Fund:		
Invested in tangible capital assets	52,701	54,338
Unrestricted	406,138	560,102
	458,839	614,440
	$ 10,458,839	$ 11,118,250

The accumulated surplus in FNFA's Debt Reserve Funds as at March 31, 2014 was $nil (2013 - $nil).

b) Members capital:

On April 1, 2006, assets and liabilities of the FNFA Inc., a predecessor organization which was controlled by the same Board as the FNFA, were transferred to the FNFA. The FNFA's Board of Directors has resolved by way of a bylaw that, upon dissolution of the FNFA, the total contribution to the FNFA of $324,035, being tangible capital assets and retained earnings of the FNFA Inc. on April 1, 2006, shall be first distributed to the public bodies having an interest in members capital. The members' capital has been recorded as restricted cash and cash equivalents.

6. Accumulated surplus (continued):

c) Change in accumulated surplus is calculated as follows:

	Credit Enhancement Fund (note 2)	Operating Fund: Invested in tangible capital assets	Operating Fund: Unrestricted	Total
Balance, March 31, 2012	$ 10,928,540	$ 87,442	$ 571,677	$ 11,587,659
Surplus (deficit)	120,215	(44,679)	(544,945)	(469,409)
Acquisition of tangible capital assets	-	11,575	(11,575)	-
Transfers	(544,945)	-	544,945	-
Balance, March 31, 2013	10,503,810	54,338	560,102	11,118,250
Surplus (deficit)	121,105	(18,662)	(761,854)	(659,411)
Acquisition of tangible capital assets	-	17,025	(17,025)	-
Transfers	(624,915)	-	624,915	-
Balance, March 31, 2014	$ 10,000,000	$ 52,701	$ 406,138	$ 10,458,839

7. Grants and contributions:

During the year, FNFA received the following funding arrangements from the AANDC:

	2014	2013
Comprehensive Funding Arrangement	$ 1,008,880	$ 612,460
Grant Agreements	500,000	500,000
	$ 1,508,880	$ 1,112,460

The AANDC provided a Comprehensive Funding Arrangement for the 2013-2014 fiscal years. The contribution is for delivery of specific programs, services and activities as set out in the arrangement. This funding agreement is reviewed annually based on the needs and the financial results of the FNFA.

Under the terms of the Grant Agreements, which is for the purpose of covering costs associated with the FNFA's core business, the FNFA is to receive an annual maximum of $500,000. This arrangement expires on March 31, 2014 and has been renewed. Management anticipates that this agreement will be renewed for future years.

8. Investment income:

	2014	2013
Credit Enhancement Fund:		
Investment income	$ 124,015	$ 129,351
Transaction and bank charges	(2,910)	(9,136)
	121,105	120,215
Other interest income	12,260	16,889
	$ 133,365	$ 137,104

9. Commitments:

(a) Operating lease commitments:

The FNFA entered into a lease agreement for office space. The agreement is for 60 months and expires February 2018.

(b) Other commitments:

The FNFA entered into an agreement with Moody's Canada Inc. to provide credit rating services for a cost of $ 86,500 annually for issuer rating and $20,000 upfront fee for commercial paper rating services. The contract can be renewed on an annual basis.

The FNFA entered into an agreement with DBRS Ltd. to provided credit rating services for a cost of $ 91,000 annually. The contract can be renewed on an annual basis.

Total estimated operating lease and other commitments for the next five years are as follows:

2015	$ 279,652
2016	82,152
2017	82,152
2018	68,460
	$ 512,416

10. Financial instruments:

(a) Fair value:

Fair value represents the estimated consideration that would be agreed upon in a current transaction between knowledgeable and willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the fair value of the consideration given or received. Subsequent to initial recognition, financial instruments measured at fair value are remeasured based on the available information. As at March 31, 2014 and 2013, FNFA did not have any financial instruments that were required or elected to be recorded at fair value. Accordingly, no disclosure regarding the information used in determining fair value measurements has been provided.

(b) Credit risk:

Credit risk refers to the risk that counterparty may default on its contractual obligations resulting in a financial loss. FNFA holds its cash and cash equivalents, Credit Enhancement Fund assets and investments with federally regulated chartered banks who are insured by the Canadian Deposit Insurance Corporation. In the event of default, FNFA's cash accounts are insured up to $300,000.

FNFA's investment policies for its Credit Enhancement Fund, Debt Reserve Funds, and Sinking Funds are governed by the Act, which specifies eligible investments. FNFA's investment policy for other cash and investments is monitored by management and the Board, consistent with its mandate.

(c) Liquidity risk:

Liquidity risk is the risk that FNFA will not be able to meet its financial obligations as they become due. For the year ended March 31, 2014, each interim financing loan to members was funded through interim financing with the same term. FNFA monitors the maturity of its financial liabilities and assesses whether it has sufficient cash to settle these financial obligations when due.

FNFA is subject to non-financial covenants and restrictions in relation to its interim financing (note 4) and Credit Enhancement Fund (note 2). As at March 31, 2014, FNFA was in compliance with these covenants and restrictions.

The following table summarizes the contractual maturities of FNFA's financial assets and liabilities:

10. Financial instruments (continued):

In thousands of dollars				March 31, 2014
	On demand	Within 6 months	6 months to 1 year	Total
Financial Assets				
Cash and cash equivalents	$ 174	$ -	$ -	$ 174
Credit Enhancement Fund assets	10,000	-	-	10,000
Accounts receivable	-	3	-	3
Investments	2,745	-	-	2,745
Interim financing loans to members	54,143	-	-	54,143
Restricted cash and cash equivalents	678	-	-	678
	67,740	3	-	67,743
Financial Liabilities				
Accounts payable and accrued liabilities	-	234	-	234
Due to members	2,745	-	-	2,745
Interim financing	54,049	-	-	54,049
Principal and interest received in advance	354	-	-	354
	57,148	234	-	57,382
Net Financial Assets	$ 10,592	$ (231)	$ -	$ 10,361

In thousands of dollars				March 31, 2013
	On demand	Within 6 months	6 months to 1 year	Total
Financial Assets				
Cash and cash equivalents	$ 364	$ -	$ -	$ 364
Credit Enhancement Fund assets	10,504	-	-	10,504
Accounts receivable	-	2	-	2
Investments	1,046	-	-	1,046
Interim financing loans to members	20,777	-	-	20,777
Restricted cash and cash equivalents	324	-	-	324
	33,015	2	-	33,017
Financial Liabilities				
Accounts payable and accrued liabilities	-	150	-	150
Due to members	1,046	-	-	1,046
Interim financing	20,776	-	-	20,776
	21,822	150	-	21,972
Net Financial Assets	$ 11,193	$ (148)	$ -	$ 11,045

10. Financial instruments (continued):

(d) Interest rate risk:

Interest rate risk relates to the impact of changes in interest rates on FNFA's future cash inflows from its investments and loans to member and future cash outflows on its interim financing. FNFA's cash and cash equivalents, Credit Enhancement Fund assets and investments are held in cash or short term money market instruments, accordingly, FNFA is not subject to significant interest rate risk in regards to these financial assets.

FNFA is subject to interest rate risk with respect to its interim financing, which bears interest at variable rates based on the lenders' prime and 30-60 bankers' acceptance rates. A 10 basis point change in variable interest rates would impact interest expense on interim financing by approximately $60,000.

For the year ended March 31, 2014, FNFA's interest on its interim financing loans to members were not subject to significant interest rate risk for the year ended March 31, 2014. FNFA monitors interest rate risk on interim financing borrowing and negotiates and renegotiates interest rates on interim financing loans to members in relation to these rates,