

Financial Statements of

**FIRST NATIONS FINANCE AUTHORITY**

Year ended March 31, 2015


## Statement of Management Responsibility

The financial statements of First Nations Finance Authority (the "FNFA") for the year ended March 31, 2015 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 two 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



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Chief Executive Officer  
May 28, 2015



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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, 2015, the statements of operations and accumulated surplus, 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, 2015 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.

A handwritten signature in black ink, appearing to read 'KPMG LLP'.

Chartered Accountants

May 28, 2015

Kelowna, Canada

# FIRST NATIONS FINANCE AUTHORITY

## Statement of Financial Position

March 31, 2015, with comparative figures for 2014

|   | 2015                 | 2014                 |
|---|----------------------|----------------------|
| <b>Financial Assets</b>                             |                      |                      |
| Cash and cash equivalents                           | \$ 2,236,568         | \$ 174,392           |
| Credit Enhancement Fund assets (note 2)             | 10,000,000           | 10,000,000           |
| Accounts receivable                                 | -                    | 2,899                |
| Investments (note 3(a))                             | 5,210,024            | 2,744,651            |
| Loans to members (note 4)                           | 103,366,625          | 54,142,894           |
| Restricted cash and cash equivalents (note 5)       | 2,372,949            | 678,307              |
|   | <u>123,186,166</u>   | <u>67,743,143</u>    |
| <b>Liabilities</b>                                  |                      |                      |
| Accounts payable and accrued liabilities            | 175,245              | 233,950              |
| Accrued interest payable                            | 765,000              | -                    |
| Principal and interest payments received in advance | 2,048,914            | 354,272              |
| Due to members (note 3(b))                          | 5,210,024            | 2,744,671            |
| Interim financing (note 6)                          | 17,736,000           | 54,048,958           |
| Debenture financing: (note 7)                       |                      |                      |
| Principal   | 90,000,000           | -                    |
| Unamortized debenture issuance costs                | (2,914,545)          | -                    |
|   | <u>87,085,455</u>    | <u>-</u>             |
|   | <u>113,020,638</u>   | <u>57,381,851</u>    |
| <b>Net Financial Assets</b>                         | <u>10,165,528</u>    | <u>10,361,292</u>    |
| <b>Non-Financial Assets</b>                         |                      |                      |
| Tangible capital assets (note 8)                    | 41,047               | 52,701               |
| Prepaid expenses                                    | 124,884              | 44,845               |
|   | <u>165,931</u>       | <u>97,546</u>        |
| <b>Commitments (note 9)</b>                         |                      |                      |
| <b>Accumulated surplus (note 10)</b>                | <u>\$ 10,331,459</u> | <u>\$ 10,458,838</u> |

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Chief Executive Officer

# FIRST NATIONS FINANCE AUTHORITY

## Statement of Operations and Accumulated Surplus

Year ended March 31, 2015, with comparative figures for 2014

|  | 2015<br>Budget<br>(note 1(g)) | 2015                 | 2014                 |
|--|-------------------------------|----------------------|----------------------|
| <b>Revenue</b>                           |                               |                      |                      |
| Grants and contributions (note 11)       | \$ 2,612,288                  | \$ 2,078,349         | \$ 1,508,880         |
| Interest from members                    | -                             | 2,900,775            | 824,989              |
| Investment income                        | 131,400                       | 123,181              | 121,105              |
| Management fees                          | 164,000                       | 41,614               | 15,963               |
|  | <u>2,907,688</u>              | <u>5,143,919</u>     | <u>2,470,937</u>     |
| <b>Expenses (note 1(h))</b>              |                               |                      |                      |
| Interest on financing                    | -                             | 2,749,379            | 770,328              |
| Professional fees                        | 831,705                       | 584,581              | 878,886              |
| Travel and workshops                     | 472,650                       | 148,219              | 168,833              |
| Salaries and benefits                    | 900,000                       | 779,432              | 780,124              |
| Financing fees (note 1(g))               | 159,360                       | 361,572              | 137,226              |
| Operation and management                 | 543,973                       | 396,529              | 376,290              |
| Amortization of debenture issuance costs | -                             | 236,315              | -                    |
| Amortization of tangible capital assets  | -                             | 15,271               | 18,662               |
|  | <u>2,907,688</u>              | <u>5,271,298</u>     | <u>3,130,349</u>     |
| Deficit                                  | -                             | (127,379)            | (659,412)            |
| Accumulated surplus, beginning of year   | 10,458,838                    | 10,458,838           | 11,118,250           |
| Accumulated surplus, end of year         | <u>\$ 10,458,838</u>          | <u>\$ 10,331,459</u> | <u>\$ 10,458,838</u> |

See accompanying notes to financial statements.

# FIRST NATIONS FINANCE AUTHORITY

## Statement of Changes in Net Financial Assets

Year ended March 31, 2015, with comparative figures for 2014

|   | 2015<br>Budget<br>(note 1(g)) | 2015          | 2014          |
|---|-------------------------------|---------------|---------------|
| Deficit                                 | \$ -                          | \$ (127,379)  | \$ (659,412)  |
| Changes to non-financial assets         |                               |               |               |
| Acquisition of tangible capital assets  | -                             | (3,617)       | (17,025)      |
| Amortization of tangible capital assets | -                             | 15,271        | 18,662        |
|   | -                             | 11,654        | 1,637         |
| Net change in prepaid expenses          | -                             | (80,039)      | (26,362)      |
|   | -                             | (68,385)      | (24,725)      |
| Decrease in net financial assets        | -                             | (195,764)     | (684,137)     |
| Net financial assets, beginning of year | 10,361,292                    | 10,361,292    | 11,045,429    |
| Net financial assets, end of year       | \$ 10,361,292                 | \$ 10,165,528 | \$ 10,361,292 |

See accompanying notes to financial statements.

# FIRST NATIONS FINANCE AUTHORITY

## Statement of Cash Flows

Year ended March 31, 2015, with comparative figures for 2014

|   | 2015          | 2014         |
|---|---------------|--------------|
| Cash provided by (used in):                         |               |              |
| Operating transactions:                             |               |              |
| Deficit   | \$ (127,379)  | \$ (659,412) |
| Amortization of tangible capital assets             | 15,271        | 18,662       |
| Amortization of deferred financing fees             | 71,042        | 11,478       |
| Amortization of debenture issuance costs            | 236,315       | -            |
| Net change in non-cash assets and liabilities:      |               |              |
| Accounts receivable                                 | 2,899         | (541)        |
| Prepaid expenses                                    | (80,039)      | (26,362)     |
| Accounts payable and accrued liabilities            | (58,705)      | 84,117       |
| Accrued interest on debenture financing             | 765,000       | -            |
|   | 824,404       | (572,058)    |
| Investing transactions:                             |               |              |
| Net decrease in Credit Enhancement Fund assets      | -             | 503,810      |
| Loans to members issued                             | (49,655,731)  | (33,565,389) |
| Repayment of loans to members                       | 432,000       | 200,000      |
| Acquisition of investments                          | (2,465,373)   | (1,698,595)  |
| Increase in amounts due to members                  | 2,465,353     | 1,698,595    |
| Increase in restricted cash                         | (1,694,642)   | (354,272)    |
| Principal and interest payments received in advance | 1,694,642     | 354,272      |
|   | (49,223,751)  | (32,861,579) |
| Financing transactions:                             |               |              |
| Debenture financing issued, principal               | 90,000,000    | -            |
| Debenture issuance costs                            | (3,150,860)   | -            |
| Proceeds from interim financing                     | 245,647,000   | 54,120,000   |
| Repayment of interim financing                      | (282,031,000) | (20,776,000) |
| Deferred financing fees paid                        | -             | (82,500)     |
|   | 50,465,140    | 33,261,500   |
| Capital transactions:                               |               |              |
| Purchase of tangible capital assets                 | (3,617)       | (17,025)     |
| Decrease in cash and cash equivalents               | 2,062,176     | (189,162)    |
| Cash and cash equivalents, beginning of year        | 174,392       | 363,554      |
| Cash and cash equivalents, end of year              | \$ 2,236,568  | \$ 174,392   |

See accompanying notes to financial statements.



# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2015

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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. All transactions and balances between the funds have been eliminated upon combination. Descriptions of FNFA's funds are as follows:

*Operating Fund:*

FNFA's Operating Fund includes revenue and expenses for all aspects of operations, including corporate administration and finance.

*Credit Enhancement Fund:*

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

*Sinking Fund:*

Under the Act, FNFA is required to establish a Sinking Fund to fulfil its repayment obligations to the holders of each debenture security issued by FNFA. A Sinking Fund is not required for interim financing loans to members. The Sinking Fund did not have any accumulated surplus or deficit as at March 31, 2015.

# FIRST NATIONS FINANCE AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2015

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## 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. The Debt Reserve Funds terms do not provide for an accumulated surplus or deficit.

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 its 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.

# FIRST NATIONS FINANCE AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2015

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## 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. Any unrealized gain or loss for financial assets or liabilities measured at fair value is recorded 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, 2015, 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% |

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# FIRST NATIONS FINANCE AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2015

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## 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 10, 2014. The budget for the year reflects the expected recovery of debenture issuance costs from participating borrowing members, which is reflected in budgeted financing fees. The expected recovery results from larger than anticipated initial debenture issuance costs, caused by inaugural template development, which FNFA intends to recover through member loan rates.

### (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, 2015. Accordingly, segmented disclosures have not been presented in these financial statements.

# FIRST NATIONS FINANCE AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2015

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## 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"). 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 CEF assets, as at March 31, 2015 consist of the following:

|                           | 2015                 | 2014                 |
|---------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 8,000,000         | \$ 10,000,000        |
| Investments               | 2,000,000            | -                    |
|                           | <u>\$ 10,000,000</u> | <u>\$ 10,000,000</u> |

## 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, 2015 is due upon extinguishment of the underlying loan, consistent with the term of the financing agreements.

# FIRST NATIONS FINANCE AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2015

## 4. Loans to members:

|                           | 2015                 | 2014                 |
|---------------------------|----------------------|----------------------|
| Debenture financing loans | \$ 85,628,238        | \$ -                 |
| Interim financing loans   | 17,738,387           | 54,142,894           |
|                           | <u>\$103,366,625</u> | <u>\$ 54,142,894</u> |

The aggregate maturity of loans to members as at March 31, 2015 was as follows:

|            |                      |
|------------|----------------------|
| 2016       | \$ 19,610,275        |
| 2017       | 1,871,888            |
| 2018       | 1,871,888            |
| 2019       | 1,871,888            |
| 2020       | 1,871,888            |
| Thereafter | 76,268,798           |
|            | <u>\$103,366,625</u> |

### (a) Debenture financing loans:

Debenture financing loans to members as at March 31, 2015 consists of loans to thirteen borrowing members. The loans, documented by way of a promissory note, are repayable in annual principal payments to maturity, with interest payable semi-annually at 3.79%.

### (b) Interim financing loans to members:

Interim financing loans to members as at March 31, 2015, consists of loans to six (2014 - nine) borrowing members. The loans bear interest at 2.6%, payable monthly, and are due on the earlier of demand or the expiry of FNFA's credit facility described in note 6. The interim financing loans have been issued by FNFA in anticipation of a bond issuance. 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.

# FIRST NATIONS FINANCE AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2015

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## 4. Loans to members (continued):

### (c) Secured Revenues Trust Account:

Loans to members require interest and principal payments, 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:

- Scheduled principal and interest payments to FNFA under the terms of the respective promissory notes and borrowing agreements; and
- The excess in the SRTA may be paid to the member based on the terms of their respective promissory note or borrowing agreement.

### (d) Loan impairment:

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, 2015. 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.

# FIRST NATIONS FINANCE AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2015

## 5. Restricted cash and cash equivalents:

|   | 2015                | 2014              |
|---|---------------------|-------------------|
| Members capital (note 10(b))                        | \$ 324,035          | \$ 324,035        |
| Principal and interest payments received in advance | 2,048,914           | 354,272           |
|   | <u>\$ 2,372,949</u> | <u>\$ 678,307</u> |

## 6. Interim financing:

|  | 2015                 | 2014                 |
|--|----------------------|----------------------|
| National Bank of Canada ("National Bank"), revolving credit facility:          |                      |                      |
| Bankers acceptance liabilities, bearing interest at an average rate of 2.2408% | \$ 17,736,000        | \$ 14,120,000        |
| Prime rate loan  | -                    | 40,000,000           |
|  | <u>17,736,000</u>    | <u>54,120,000</u>    |
| Deferred financing fees  | -                    | (71,042)             |
|  | <u>\$ 17,736,000</u> | <u>\$ 54,048,958</u> |

The National Bank revolving credit facility is available up to a maximum aggregate amount of \$100 million. The revolving credit facility is available through the issuance of bankers acceptances ("Bankers Acceptance Liabilities") or the issuance of loans bearing interest calculated in relation to the lender's prime rate ("Prime Rate Loans"). The Bankers Acceptance Liabilities as at March 31, 2015 bear interest at the lender's 30 to 60 day bankers' acceptance fee plus a stamping fee. The Prime Rate Loan as at March 31, 2015 bears interest at the lender's prime rate plus 0.25% with interest-only payments on a monthly basis. The undrawn portion of the revolving credit facility is subject to a standby fee of 0.25%. Amounts borrowed under the revolving credit facility are due the earlier of the terms of FNFA's interim financing loans to members (note 4(b)) 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 and the Property Tax Trust Accounts.



# FIRST NATIONS FINANCE AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2015

## 7. Debenture financing:

The debenture financing consists of unsecured and unsubordinated bonds issued by FNFA. The bonds provide for semi-annual interest payments at 3.4% and payment of the principal at maturity on June 26, 2024.

## 8. Tangible capital assets:

| March 31, 2015              | Furniture<br>and equipment | Computer<br>equipment | Leasehold<br>improvements | Total      |
|-----------------------------|----------------------------|-----------------------|---------------------------|------------|
| Costs:                      |                            |                       |                           |            |
| Balance, beginning of year  | \$ 50,165                  | \$ 119,258            | \$ 115,709                | \$ 285,132 |
| Additions                   | -                          | 3,617                 | -                         | 3,617      |
| Balance, end of year        | 50,165                     | 122,875               | 115,709                   | 288,749    |
| Accumulated amortization:   |                            |                       |                           |            |
| Balance, beginning of year  | 32,265                     | 84,457                | 115,709                   | 232,431    |
| Amortization                | 3,580                      | 11,691                | -                         | 15,271     |
| Balance, end of year        | 35,845                     | 96,148                | 115,709                   | 247,702    |
| Net book value, end of year | \$ 14,320                  | \$ 26,727             | \$ -                      | \$ 41,047  |

| March 31, 2014              | Furniture<br>and equipment | Computer<br>equipment | Leasehold<br>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  |

# FIRST NATIONS FINANCE AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2015

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## 9. Commitments:

The FNFA entered into a lease agreement for office space, which expires February 2018. Total estimated operating lease commitments for the next three years are as follows:

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|      |    |         |
|------|----|---------|
| 2016 | \$ | 82,776  |
| 2017 |    | 82,776  |
| 2018 |    | 68,980  |
|      | \$ | 234,532 |

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## 10. Accumulated surplus:

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

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|                                     | 2015          | 2014          |
|-------------------------------------|---------------|---------------|
| Accumulated surplus:                |               |               |
| Credit Enhancement Fund             | \$ 10,000,000 | \$ 10,000,000 |
| Operating Fund:                     |               |               |
| Invested in tangible capital assets | 41,047        | 52,701        |
| Unrestricted                        | 290,412       | 406,137       |
|                                     | 331,459       | 458,838       |
|                                     | \$ 10,331,459 | \$ 10,458,838 |

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(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.

# FIRST NATIONS FINANCE AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2015

## 10. Accumulated surplus (continued):

(c) Change in accumulated surplus is calculated as follows:

|  | Credit<br>Enhancement<br>Fund (note 2) | Operating Fund                            |              | Total         |
|--|--|---|--------------|---------------|
|  |  | Invested in<br>tangible<br>capital assets | Unrestricted |               |
| Balance, March 31, 2013                      | \$ 10,503,810                          | \$ 54,338                                 | \$ 560,102   | \$ 11,118,250 |
| Surplus (deficit)                            | 121,105                                | (18,662)                                  | (761,855)    | (659,412)     |
| Acquisition of<br>tangible capital<br>assets | -                                      | 17,025                                    | (17,025)     | -             |
| Transfers                                    | (624,915)                              | -   | 624,915      | -             |
| Balance, March 31, 2014                      | 10,000,000                             | 52,701                                    | 406,137      | 10,458,838    |
| Surplus (deficit)                            | 123,181                                | (15,271)                                  | (235,289)    | (127,379)     |
| Acquisition of<br>tangible capital<br>assets | -                                      | 3,617                                     | (3,617)      | -             |
| Transfers                                    | (123,181)                              | -   | 123,181      | -             |
| Balance, March 31, 2015                      | \$ 10,000,000                          | \$ 41,047                                 | \$ 290,412   | \$ 10,331,459 |

# FIRST NATIONS FINANCE AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2015

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## 11. Grants and contributions:

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

|                                   | 2015                | 2014                |
|-----------------------------------|---------------------|---------------------|
| Comprehensive Funding Arrangement | \$ 1,578,349        | \$ 1,008,880        |
| Grant Agreements                  | 500,000             | 500,000             |
|                                   | <u>\$ 2,078,349</u> | <u>\$ 1,508,880</u> |

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, 2015 and has been renewed. Management anticipates that this agreement will be renewed for future years.

# FIRST NATIONS FINANCE AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2015

## 12. Financial instruments:

(a) 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, 2015, 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 6) and Credit Enhancement Fund (note 2). As at March 31, 2015, FNFA was in compliance with these covenants and restrictions.

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

| In thousands of dollars                    |           |               |                     |      |      | 2015    |
|--|-----------|---------------|---------------------|------|------|---------|
|  | On demand | Within 1 year | Greater than 1 year |      |      | Total   |
| Accounts payable and accrued liabilities   | \$ -      | \$ 175        | \$ -                | \$ - | \$ - | 175     |
| Accrued interest payable                   |           | 765           |                     |      |      | 765     |
| Principal and interest received in advance | -         | 2,049         | -                   |      |      | 2,049   |
| Due to members                             | 5,210     | -             | -                   |      |      | 5,210   |
| Interim financing                          | 17,736    | -             | -                   |      |      | 17,736  |
| Debenture financing                        | -         | -             | 90,000              |      |      | 90,000  |
|  | \$ 22,946 | \$ 2,989      | \$ 90,000           | \$ - | \$ - | 115,935 |

| In thousands of dollars                    |           |               |                     |      |      | 2014   |
|--|-----------|---------------|---------------------|------|------|--------|
|  | On demand | Within 1 year | Greater than 1 year |      |      | Total  |
| Accounts payable and accrued liabilities   | \$ -      | \$ 234        | \$ -                | \$ - | \$ - | 234    |
| Principal and interest received in advance | -         | 354           | -                   |      |      | 354    |
| Due to members                             | 2,745     | -             | -                   |      |      | 2,745  |
| Interim financing                          | 54,049    | -             | -                   |      |      | 54,049 |
|  | \$ 56,794 | \$ 588        | \$ -                | \$ - | \$ - | 57,382 |

# FIRST NATIONS FINANCE AUTHORITY

Notes to Financial Statements (continued)

Year ended March 31, 2015

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## 12. Financial instruments (continued):

### (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) 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 \$20,000.

For the year ended March 31, 2015, FNFA's interest on its interim financing loans to members were not subject to significant interest rate risk for the year ended March 31, 2015. 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.