Financial Statements of

FIRST NATIONS FINANCE AUTHORITY

Year ended March 31, 2016

Statement of Management Responsibility

The financial statements of First Nations Finance Authority (the "FNFA") for the year ended March 31, 2016 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

Chief Executive Officer
May 26, 2016

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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, 2016, 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, 2016 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 Professional Accountants

May 26, 2016
Kelowna, Canada

FIRST NATIONS FINANCE AUTHORITY

Statement of Financial Position

March 31, 2016, with comparative figures for 2015

	2016	2015
Financial Assets		
Cash and cash equivalents	$ 2,165,305	$ 2,236,568
Credit Enhancement Fund assets (note 2)	10,000,000	10,000,000
Debt Reserve Funds investments (note 3(a))	12,543,690	5,210,024
Sinking Funds investments (note 4)	2,129,624	-
Loans to members (note 5)	246,022,335	103,366,625
Restricted cash and cash equivalents (note 6)	6,169,524	2,372,949
	279,030,478	123,186,166
Liabilities		
Accounts payable and accrued liabilities	282,579	175,245
Accrued interest payable	1,215,346	765,000
Principal and interest payments received in advance	5,845,489	2,048,914
Due to members (note 3(b))	12,543,690	5,210,024
Interim financing (note 7)	109,840,118	17,736,000
Debenture financing: (note 8)		
Principal	140,000,000	90,000,000
Unamortized premium (discount)	2,154,567	(432,900)
Unamortized debenture issuance costs	(3,462,652)	(2,481,645)
	138,691,915	87,085,455
	268,419,137	113,020,638
Net Financial Assets	10,611,341	10,165,528
Non-Financial Assets		
Tangible capital assets (note 9)	33,870	41,047
Prepaid expenses	267,143	124,884
	301,013	165,931
Commitments (note 10)		
Accumulated surplus (note 11)	$ 10,912,354	$ 10,331,459

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, 2016, with comparative figures for 2015

	2016 Budget (note 1(g))	2016	2015
Revenue			
Grants and contributions (note 12)	$ 2,200,099	$ 2,227,975	$ 2,078,349
Interest from members	640,640	6,279,163	2,900,775
Investment	275,000	409,233	128,185
Management fees	85,701	84,220	41,614
	3,201,440	9,000,591	5,148,923
Expenses (note 1(h))			
Interest on financing	-	5,863,938	2,749,379
Discount or premium amortization	-	(159,533)	35,100
Debenture issuance costs amortization	-	369,744	201,215
Interim financing fees amortization	-	33,668	71,042
Financing fees	331,205	256,033	463,780
Professional fees	891,925	491,076	411,331
Travel and workshops	410,230	220,934	101,198
Salaries and benefits	880,000	885,190	779,432
Operation and management	688,080	357,385	443,551
Investment income due to members	-	81,502	5,005
Amortization of tangible capital assets	-	19,759	15,271
	3,201,440	8,419,696	5,276,304
Surplus (deficit)	-	580,895	(127,379)
Accumulated surplus, beginning of year	10,331,459	10,331,459	10,458,838
Accumulated surplus, end of year	$ 10,331,459	$ 10,912,354	$ 10,331,459

See accompanying notes to financial statements.

FIRST NATIONS FINANCE AUTHORITY

Statement of Changes in Net Financial Assets

Year ended March 31, 2016, with comparative figures for 2015

	2016 Budget (note 1(g))	2016	2015
Surplus (deficit)	$ -	$ 580,895	$ (127,379)
Changes to non-financial assets			
Acquisition of tangible capital assets	-	(12,582)	(3,617)
Amortization of tangible capital assets	-	19,759	15,271
	-	7,177	11,654
Net change in prepaid expenses	-	(142,259)	(80,039)
	-	(135,082)	(68,385)
Increase (decrease) in net financial assets	-	445,813	(195,764)
Net financial assets, beginning of year	10,165,528	10,165,528	10,361,292
Net financial assets, end of year	$ 10,165,528	$ 10,611,341	$ 10,165,528

See accompanying notes to financial statements.

FIRST NATIONS FINANCE AUTHORITY

Statement of Cash Flows

Year ended March 31, 2016, with comparative figures for 2015

	2016	2015
Cash provided by (used in):		
Operating transactions:		
Surplus (deficit)	$ 580,895	$ (127,379)
Discount or premium amortization	(159,533)	35,100
Interim financing fees amortization	33,668	71,042
Debenture issuance cost amortization	369,744	201,215
Amortization of tangible capital assets	19,759	15,271
Net change in non-cash assets and liabilities:		
Accounts receivable	-	2,899
Prepaid expenses	(142,259)	(80,039)
Accounts payable and accrued liabilities	107,334	(58,705)
Accrued interest on debenture financing	450,346	765,000
	1,259,954	824,404
Investing transactions:		
Loans to members issued	(145,877,471)	(49,655,731)
Repayment of loans to members	3,221,761	432,000
Acquisition of investments	(9,463,290)	(2,465,373)
Increase in amounts due to members	7,333,666	2,465,353
Increase in restricted cash	(3,796,575)	(1,694,642)
Principal and interest payments received in advance	3,796,575	1,694,642
	(144,785,334)	(49,223,751)
Financing transactions:		
Debenture financing issued, principal	50,000,000	90,000,000
Premium (discount) on debenture issuance	2,747,000	(468,000)
Debenture issuance costs	(1,350,750)	(2,682,860)
Proceeds from interim financing	110,412,471	17,736,000
Repayment of interim financing	(17,736,000)	(54,120,000)
Interim financing fees paid	(606,022)	-
	143,466,699	50,465,140
Capital transactions:		
Purchase of tangible capital assets	(12,582)	(3,617)
Increase (decrease) in cash and cash equivalents	(71,263)	2,062,176
Cash and and cash equivalents, beginning of year	2,236,568	174,392
Cash and cash equivalents, end of year	$ 2,165,305	$ 2,236,568
Supplemental cash flow information:		
Interest paid	$ 5,413,592	$ 1,984,379

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. 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 for the enhancement of FNFA’s credit rating.

Sinking Funds:

Under the Act, FNFA is required to establish Sinking Funds to fulfill its repayment obligations to the holders of each debenture security issued by FNFA. Sinking Fund payments are required as a condition of loan agreements with members and are invested by FNFA, and occur based upon the frequency of FNFA intercepting the revenues supporting the loans. Sinking Funds are 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 a Debt Reserve Funds. FNFA withholds 5% of the loan amount requested under a member's borrowing law. 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 the payor of the intercepted revenue stream or from a borrowing member using its own source business revenues, the FNFA can utilize the Debt Reserve Funds to satisfy these obligations. Upon extinguishment of a member's loan, the Debt Reserve Fund contributed by the member and net earnings on investment of the funds are repaid to the member. The Debt Reserve Fund terms do not provide for an accumulated surplus or deficit.

FNFA follows the accrual method of accounting for revenues and expenses. Revenues are 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 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.

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, freestanding derivative instruments that are not in a qualifying hedging relationship 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 issuance of a financial instrument are added to the amortized cost or expensed if related to instruments are 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, 2016, 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 asset's 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	lease term

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, the fair value of financial liabilities on issuance and the effective interest rate of financial assets and liabilities measured at amortization cost. 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 May 28, 2015. The budget is reflected in the statement of operations and accumulated surplus and the statement of changes in net financial assets.

(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, 2016. Accordingly, segmented disclosures have not been presented in these financial statements.

2. Credit Enhancement Fund assets:

FNFA entered into an agreement with Indigenous and Northern Affairs Canada ("INAC"), on March 24, 2011 to transfer funds to FNFA for deposit into the Credit Enhancement Fund. Funds included in the Credit Enhancement Fund may be invested only in securities, investments or deposits specified under the Act. Investment income from the Credit Enhancement Fund 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 Credit Enhancement Fund may be used to temporarily offset shortfalls in the Debt Reserve Funds and for any other purpose prescribed by regulation.

The Credit Enhancement Fund assets, as at March 31, 2016 consist of the following:

	2016	2015
Cash and cash equivalents	$ 8,000,000	$ 8,000,000
Investments	2,000,000	2,000,000
	$ 10,000,000	$ 10,000,000

3. Debt Reserve Funds:

(a) Investments:

FNFA holds investments for their Debt Reserve Funds consisting of cash and cash equivalents. The Debt Reserve Funds investments are 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 Funds.

3. Debt Reserve Funds (continued):

(b) Due to members:

Amount due to members in the Debt Reserve Funds 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, 2016, is due upon extinguishment of the underlying loan, consistent with the term of the financing agreements.

4. Sinking Funds:

The Sinking Funds consists of cash and cash equivalents and relate to principal repayments received by members to fulfil the repayment obligations of the debentures.

5. Loans to members:

	2016	2015
Debenture financing loans	$136,107,477	$ 85,628,238
Interim financing loans	109,914,858	17,738,387
	$246,022,335	$103,366,625

The aggregate maturity of loans to members as at March 31, 2016 are as follows:

2017	$113,327,036
2018	3,412,178
2019	3,412,178
2020	3,412,178
2021	3,412,178
Thereafter	119,046,587
	$246,022,335

(a) Debenture financing loans:

Debenture financing loans to members consists of loans to twenty four (2015 - 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 2.985% to 3.79%.

5. Loans to members (continued):

(b) Interim financing loans to members:

Interim financing loans to members as at March 31, 2016, consists of loans to nineteen (2015 - six) 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 interim financing credit facility described in note 7. 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.

(c) Secured Revenues Trust Account:

FNFA determines, after reviewing contractual and other supporting revenue stream documents, which of the member's revenue streams are to be intercepted. These revenues are intercepted directly from the payor, and are specified in the member's Borrowing Law. Each revenue stream must maintain a minimum debt service coverage ratio established by FNFA's Board. These intercepted revenues cover both interest and principal payments and are deposited by the payor 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 in accordance with the terms and timing outlined in 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, 2016 (2015 - $nil). 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.

6. Restricted cash and cash equivalents:

	2016	2015
Members capital (note 11(b))	$ 324,035	$ 324,035
Principal and interest payments received in advance	5,845,489	2,048,914
	$ 6,169,524	$ 2,372,949

7. Interim financing:

	2016	2015
Bankers acceptance liabilities, bearing interest at an average rate of 2.1236% (2015 - 2.2408%)	$110,412,471	$ 17,736,000
Deferred interim financing fees	(572,353)	-
	$109,840,118	$ 17,736,000

The interim financing credit facility is available up to a maximum aggregate amount of $130 million. The 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 applicable margin and stand-by fees are based on the credit rating of FNFA. Based on the credit rating as at March 31, 2016 the margins and rates are as follows. The Bankers Acceptance Liabilities as at March 31, 2016 bear interest at the lender's 30 to 60 day bankers' acceptance fee plus a stamping fee of 1.25%. The Prime Rate Loan as at March 31, 2016 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 5(b)) and February 23, 2018.

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 Accounts.

8. 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. Debenture discounts or premium and debenture issuance costs including bond forward fees are amortized over the debenture term under the effective interest method. The resulting effective interest rate for the debenture financing is 3.524% (2015 - 3.828%).

9. Tangible capital assets:

March 31, 2016	Furniture and equipment	Computer equipment	Leasehold improvements	Total
Costs:				
Balance, beginning of year	$ 50,165	$ 122,875	$ 115,709	$ 288,749
Additions	-	12,582	-	12,582
Disposals	-	(54,998)	-	(54,998)
Balance, end of year	50,165	80,459	115,709	246,333
Accumulated amortization:				
Balance, beginning of year	35,845	96,148	115,709	247,702
Amortization	2,864	16,895	-	19,759
Disposals	-	(54,998)	-	(54,998)
Balance, end of year	38,709	58,045	115,709	212,463
Net book value, end of year	$ 11,456	$ 22,414	$ -	$ 33,870

March 31, 2015	Furniture and equipment	Computer equipment	Leasehold 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

10. Commitments:

The FNFA entered into a lease agreement for office space, which expires February 2018 and various office equipment leases expiring in January 2021. Total estimated operating lease commitments to maturity are as follows:

2017	$ 89,406
2018	75,418
2019	5,309
2020	5,136
2021	3,852
	$ 179,121

11. Accumulated surplus:

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

	2016	2015
Accumulated surplus:		
Credit Enhancement Fund	$ 10,000,000	$ 10,000,000
Operating Fund:		
Invested in tangible capital assets	33,870	41,047
Unrestricted	878,484	290,412
	912,354	331,459
	$ 10,912,354	$ 10,331,459

(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.

11. Accumulated surplus (continued):

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

		Operating Fund		
	Credit Enhancement Fund (note 2)	Invested in tangible capital assets	Unrestricted	Total
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 tangible capital assets	-	3,617	(3,617)	-
Transfers	(123,181)	-	123,181	-
Balance, March 31, 2015	10,000,000	41,047	290,412	10,331,459
Surplus (deficit)	122,233	(19,759)	478,421	580,895
Acquisition of tangible capital assets	-	12,582	(12,582)	-
Transfers	(122,233)	-	122,233	-
Balance, March 31, 2016	$ 10,000,000	$ 33,870	$ 878,484	$ 10,912,354

12. Grants and contributions:

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

		2016		2015
Comprehensive Funding Arrangement	$	1,727,975	$	1,578,349
Grant Agreements		500,000		500,000
	$	2,227,975	$	2,078,349

INAC provided a Comprehensive Funding Arrangement, 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, 2016 and has been renewed for the March 31, 2017 fiscal year.

13. 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, 2016, each interim financing loan to members was funded through interim financing with the same term. FNFA maintains Sinking Funds (note 1(a)) to assist with managing its liquidity risk with respect to its debenture financing. 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 7) and Credit Enhancement Fund (note 2). As at March 31, 2016, 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				2016
	On demand	Within 1 year	Greater than 1 year	Total
Accounts payable and accrued liabilities	$ -	$ 283	$ -	$ 283
Accrued interest payable	-	1,215	-	1,215
Principal and interest received in advance	-	5,845	-	5,845
Due to members	12,544	-	-	12,544
Interim financing	109,840	-	-	109,840
Debenture financing	-	-	140,000	140,000
	$ 122,384	$ 7,343	$ 140,000	$ 269,727

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

13. 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.

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 rate and 30-60 bankers' acceptance rates. A 10 basis point change in variable interest rates would impact interest expense on interim financing by approximately $110,000. 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.

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14. Comparative figures:

Certain comparative figures haves been reclassified to conform with the financial statement presentation adopted for the current year.