Financial Statements of

FIRST NATIONS FINANCE AUTHORITY

Year ended March 31, 2017

FIRST NATIONS FINANCE AUTHORITY

202 – 3500 Carrington Road, Westbank, B.C. Canada V4T 3C1
Telephone: (250) 768-5253 Fax: (250) 768-5258
www.fnfa.ca

Statement of Management Responsibility

The financial statements of First Nations Finance Authority (the "FNFA") for the year ended March 31, 2017 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 25, 2017

KPMG LLP
200 - 3200 Richter Street
Kelowna BC V1W 5K9
Canada
Telephone (250) 979-7150
Fax (250) 763-0044

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, 2017, the statements of operations and accumulated surplus, changes in net financial assets, cash flows and remeasurement gains and losses 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, 2017 and its results of operations, its changes in net financial assets, its cash flows and its remeasurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants

May 25, 2017
Kelowna, Canada

FIRST NATIONS FINANCE AUTHORITY

Statements of Financial Position

March 31, 2017 with comparative figures for March 31, 2016

	2017	2016
Financial Assets		
Cash and cash equivalents	$ 4,815,732	$ 2,165,305
Accounts receivable	25,000	-
Debt Reserve Funds investments (note 2(a))	16,267,238	12,543,690
Sinking Funds investments (note 3)	10,720,144	2,129,624
Loans to members (note 4)	308,569,191	246,022,335
Restricted cash and cash equivalents (note 5)	7,491,379	6,169,524
	347,888,684	269,030,478
Liabilities		
Accounts payable and accrued liabililties	198,656	282,579
Accrued interest payable	2,243,531	1,215,346
Deferred contributions (note 12)	330,652	-
Principal and interest payments received in advance	7,167,344	5,845,489
Due to members (note 2(b))	16,267,238	12,543,690
Interim financing (note 6)	64,977,997	109,840,118
Debenture financing: (note 7)		
Principal	251,000,000	140,000,000
Unamortized premium (discount)	8,084,941	2,154,567
Unamoritized debenture issuance costs	(3,596,670)	(3,462,652)
	346,673,689	268,419,137
Net Financial Assets	1,214,995	611,341
Non-Financial Assets		
Credit Enhancement Fund assets (note 8)	20,000,000	10,000,000
Tangible capital assets (note 9)	37,830	33,870
Prepaid expenses	280,800	267,143
	20,318,630	10,301,013
Commitments and contingencies (note 10)		
Subsequent event (note 8)		
Accumulated surplus	$ 21,533,625	$ 10,912,354
Accumulated surplus is comprised of:		
Accumulated surplus (note 11)	$ 21,790,389	$ 10,912,354
Accumulated remeasurement loss	(256,764)	-
	$ 21,533,625	$ 10,912,354

See accompanying notes to the financial statements.

On Behalf of the Board:

Director

Chief Executive Officer

FIRST NATIONS FINANCE AUTHORITY

Statement of Operations and Acccumulated Surplus

Year ended March 31, 2017 with comparative figures for 2016

	2017 Budget (note 1(g))	2017	2016
Revenue			
Grants and contributions (note 12)	$ 3,149,268	$ 2,878,968	$ 2,227,975
Interest from members	9,392,075	8,773,199	6,279,163
Debenture issuance premium amortization	650,000	1,042,140	206,333
Investment Income	365,000	474,107	409,233
Management fees	69,331	138,344	84,220
	13,625,674	13,306,758	9,206,924
Expenses (note 1 (h))			
Interest on financing	8,944,833	8,868,146	5,863,938
Debenture issuance discount amortization	50,000	47,224	46,800
Debenture issuance costs amortization	259,992	476,481	369,744
Interim financing fees amortization	202,779	202,779	33,668
Financing fees	859,268	357,018	256,033
Professional fees	699,088	532,274	491,076
Travel and workshops	432,000	299,318	220,934
Salaries and benefits	1,095,000	997,646	885,190
Operations and management	380,150	381,249	357,385
Investment income due to members	171,341	249,049	81,502
Amortization of tangible capital assets	10,500	17,539	19,759
	13,104,951	12,428,723	8,626,029
Annual surplus	$ 520,723	$ 878,035	$ 580,895
Credit Enhancement Fund contribution (note 8)	-	10,000,000	-
	520,723	10,878,035	580,895
Accumulated surplus, beginning of year	10,912,354	10,912,354	10,331,459
Accumulated surplus, end of year	$ 11,433,077	$ 21,790,389	$ 10,912,354

See accompanying notes to the financial statements.

FIRST NATIONS FINANCE AUTHORITY

Statement of Changes in Net Financial Assets

Year ended March 31, 2017 with comparative figures for 2016

	2017 Budget (note 1(g))	2017	2016
Annual surplus	$ 520,723	$ 878,035	$ 580,895
Changes to non-financial assets			
Acquisition of tangible capital assets	-	(21,499)	(12,582)
Amortization of tangible capital assets	10,500	17,539	19,759
	10,500	(3,960)	7,177
Net change in prepaid expenses	-	(13,657)	(142,259)
	10,500	(17,617)	(135,082)
Remeasurement loss on derivative financial instruments (note 10)	-	(256,764)	-
Increase in net financial assets	531,223	603,654	445,813
Net financial assets, beginning of year	611,341	611,341	165,528
Net financial assets, end of year	$ 1,142,564	$ 1,214,995	$ 611,341

See accompanying notes to the financial statements.

FIRST NATIONS FINANCE AUTHORITY

Statement of Cash Flows

Year ended March 31, 2017 with comparative figures for 2016

	2017	2016
Cash provided by (used in):		
Operating transactions:		
Annual surplus	$ 878,035	$ 580,895
Debenture issuance premium amortization	(1,042,140)	(206,333)
Debenture issuance discount amortization	47,224	46,800
Debenture issuance costs amortization	476,481	369,744
Interim financing fees amortization	202,779	33,668
Amortization of tangible capital assets	17,539	19,759
Net change in non-cash assets and liabilities:		
Accounts receivable	(25,000)	-
Prepaid expenses	(13,657)	(142,259)
Deferred contributions	330,652	-
Accounts payable and accrued liabilities	(83,923)	107,334
Accrued interest on debenture financing	1,028,185	450,346
	1,816,175	1,259,954
Investing transactions:		
Loans to members issued	(73,549,500)	(145,877,471)
Repayment of loans to members	10,745,882	3,221,761
Acquisition of investments	(12,314,068)	(9,463,290)
Increase in amounts due to members	3,723,548	7,333,666
Increase in restricted cash	(1,321,855)	(3,769,575)
Principal and interest payments received in advance	1,321,855	3,769,575
	(71,394,138)	(144,785,334)
Financing transactions:		
Debenture financing issued, principal	111,000,000	50,000,000
Premium (discount) on debenture issuance	6,925,290	2,747,000
Debenture issuance costs	(610,500)	(1,350,750)
Proceeds from interim financing	65,349,887	110,412,471
Repayment of interim financing	(110,412,471)	(17,736,000)
Interim financing fees paid	(2,317)	(606,022)
	72,249,889	143,466,699
Capital transactions:		
Purchase of tangible capital assets	(21,499)	(12,582)
Increase (decrease) in cash and cash equivalents	2,650,427	(71,263)
Cash and cash equivalents, beginning of year	2,165,305	2,236,568
Cash and cash equivalents, end of year	$ 4,815,732	$ 2,165,305
Supplemental cash flow information:		
Interest paid	$ 7,333,757	$ 5,413,592

See accompanying notes to the financial statements.

FIRST NATIONS FINANCE AUTHORITY

Statement of Remeasurement Gains and Losses

Year ended March 31, 2017 with comparative figures for 2016

	2017	2016
Loss on derivative financial instruments (note 10)	$ (256,764)	$ -
Accumulated remeasurement gains and losses, end of year	$ (256,764)	$ -

See accompanying notes to the 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.

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.

(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, including cash and cash equivalents and government and corporate bonds, are recorded at amortized cost Corporate bonds held by FNFA are chartered bank investments as consistent with investment requirements under the Act. 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 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 the realized gain or loss is recognized in the statement of operations.

(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

(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 amortized 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 26, 2016. 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, 2017. Accordingly, segmented disclosures have not been presented in these financial statements.

2. Debt Reserve Funds:

(a) Investments:

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.

The Debt Reserve Fund assets, as at March 31, 2017 consist of the following:

	2017	2016
Cash and cash equivalents	$ 11,207,097	$ 12,543,690
Government and corporate bonds	5,060,141	-
	$ 16,267,238	$ 12,543,690

Government and corporate bonds include bonds with initial maturities of 1-10 years and have a total par value of $5,000,000. The market value as at March 31, 2017 approximates its carrying value.

(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, 2017, is due upon extinguishment of the underlying loan, consistent with the term of the financing agreements.

3. Sinking Funds:

The Sinking Funds assets are held to fulfil the repayment obligations of the debentures. Funds included in the Sinking Fund may be invested only in securities, investments or deposits specified under the Act.

The Sinking Fund assets, as at March 31, 2017 consist of the following:

	2017	2016
Cash and cash equivalents	$ 6,482,529	$ 2,129,624
Government and corporate bonds	4,237,615	-
	$ 10,720,144	$ 2,129,264

Government and corporate bonds include bonds with initial maturities of 1-10 years and have a total par value of $4,000,000. The market value as at March 31, 2017 approximates its carrying value.

4. Loans to members:

	2017	2016
Debenture financing loans	$ 243,219,304	$ 136,107,477
Interim financing loans	65,349,887	109,914,858
	$ 308,569,191	$ 246,022,335

The aggregate maturity of loans to members as at March 31, 2017 are as follows:

2018	$ 72,164,051
2019	6,814,164
2020	6,814,164
2021	6,814,164
2022	6,814,164
Thereafter	209,148,484
	$ 308,569,191

(a) Debenture financing loans:

Debenture financing loans to members consists of loans to twenty eight (2016 – twenty four) 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 2.90% to 3.79%.

(b) Interim financing loans to members:

Interim financing loans to members as at March 31, 2017, consists of loans to ten (2016 - nineteen) 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 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.

(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, 2017 (2016 - $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 the First Nations Financial 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.

5. Restricted cash and cash equivalents:

	2017	2016
Members capital (Note 11(b))	$ 324,035	$ 324,035
Principal and interest payments received in advance	7,167,344	5,845,489
	$ 7,491,379	$ 6,169,524

6. Interim financing:

	2017	2016
Bankers acceptance liabilities, bearing interest at an average rate of 2.1374% (2016 - 2.1236%)	$ 65,349,887	$ 110,412,471
Deferred interim financing fees	(371,890)	(572,353)
	$ 64,977,997	$ 109,840,118

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, 2017 the margins and rates are as follows. The Bankers Acceptance Liabilities as at March 31, 2017 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, 2017 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 February 23, 2018.

The interim financing is secured, ranking pari passu with the debenture financing, by 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.

7. Debenture financing:

The debenture financing consists of secured and unsubordinated bonds issued by FNFA. Security is pari passu with the interim financing facility. 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 3.118% (2016 - 3.524%).

8. Credit Enhancement Fund assets:

FNFA entered into an agreement with Indigenous and Northern Affairs Canada ("INAC"), on March 24, 2011 and amended on December 6, 2016 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. During the year, no transfers were made to the Debt Reserve Fund.

The Credit Enhancement Fund assets, as at March 31, 2017 consist of the following:

	2017	2016
Cash and cash equivalents	$ 10,891,192	$ 8,000,000
Government and corporate bonds	9,108,808	2,000,000
	$ 20,000,000	$ 10,000,000

Government and corporate bonds include bonds with initial maturities of 1-10 years and have a total par value of $9,000,000. The market value as at March 31, 2017 approximates its carrying value.

Subsequent to March 31, 2017, the final installment of $10 million from the amended agreement signed on December 6, 2016 was received.

9. Tangible capital assets:

March 31, 2017	Furniture and equipment	Computer equipment	Leasehold improvements	Total
Cost:				
Balance, beginning of year	$ 50,165	$ 80,459	$ 115,709	$ 246,333
Additions	2,802	18,697	-	21,499
Disposals	(29,904)	(34,614)	(115,709)	(180,227)
Balance, end of year	23,063	64,542	-	87,605
Accumulated amortization:				
Balance, beginning of year	38,709	58,045	115,709	212,463
Amortization	2,391	9,500	-	11,891
Disposals	26,455	(32,415)	(115,709)	(174,579)
Balance, end of year	14,645	35,130	-	49,775
Net book value, end of year	$ 8,418	$ 29,411	$ -	$ 37,830

March 31, 2016	Furniture and equipment	Computer equipment	Leasehold improvements	Total
Cost:				
Balance, beginning of year	$ 50,165	$ 80,459	$ 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

10. Commitments and contingent liabilities

(a) 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:

2018	$ 78,400
2019	5,136
2020	5,136
2021	3,852
	$ 92,524

(b) Derivative financial instruments

At March 31, 2017, the FNFA had the following outstanding derivative financial instruments:

- bond forward contract with a notional value of $13.4 million (2016 – $ nil) whose settlement extends to June 2, 2017.
- Interest rate swap transaction with a notional value of $6.6 million (2016 – $ nil) whose settlement extends to March 7, 2027.

The contracts were entered into as devices to control interest rate risk. They were entered into on behalf of a borrowing member to provide a fixed lending rate for a predetermined period of time, commencing at the specified future date. At the specified future dates, the Authority will cash settle the derivative contracts with the financial institution and recover these settlement costs from the borrowing member over the remaining term of the loan.

The unrealized loss at March 31, 2017 was $256,764 (2016 – $ nil) and has been reflected in the Statement of Remeasurement Gains and Losses and as an offset to loans to members.

(c) GST/HST recoverable

In the current fiscal year, FNFA received clarification of status for GST/HST purposes as a Band-Empowered Entity. Prior to receiving the ruling on the status, a rebate claim was submitted and denied by CRA. FNFA has objected to the denial of the rebate claim due to receiving the ruling of FNFA being a Band-Empowered Entity. At March 31, 2017, the objection has been received by CRA but has not been reviewed. As it is uncertain whether the denied rebate will be received, no asset has been recognized in the financial statements. At March 31, 2017, the contingent recoverable amount is $110,643.

11. Accumulated surplus:

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

	2017	2016
Credit Enhancement Fund	$ 20,000,000	$ 10,000,000
Operating Fund:		
Invested in tangible capital assets	37,830	33,870
Unrestricted	1,752,559	878,484
	1,790,389	912,354
	$ 21,790,389	$ 10,912,354

(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.

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

		Operating Fund		
	Credit Enhancement Fund	Invested in tangible capital assets	Unrestricted	Total
Balance, March 31, 2015	$ 10,000,000	$ 41,047	$ 290,412	$ 10,331,549
Annual 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
Annual surplus (deficit)	358,292	(17,539)	537,282	878,035
Credit Enhancement Fund Contribution	10,000,000	-	-	10,000,000
Acquisition of tangible capital assets	-	21,499	(21,499)	-
Transfers	(358,292)	-	358,292	-
Balance March 31, 2017	$ 20,000,000	$ 37,830	$ 1,752,559	$ 21,790,389

12. Grants and contributions:

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

	2017	2016
Comprehensive Funding Arrangement	$ 2,709,620	$ 1,727,975
Grant Agreement	500,000	500,000
Deferred contributions	(330,652)	-
	$ 2,878,968	$ 2,227,975

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, 2017 and has been renewed for the March 31, 2018 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, 2017, each interim financing loan to members was funded through interim financing with the same term. FNFA maintains Sinking Funds (note 3(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 6) and Credit Enhancement Fund (note 8). As at March 31, 2017, 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				**2017**
	On demand	Within 1 year	Greater than 1 year	Total
Accounts payable and accrued liabilities	$ -	$ 198	$ -	$ 198
Accrued interest payable	-	2,244	-	2,244
Deferred contributions	-	331	-	331
Principal and interest received in advance	-	7,167	-	7,167
Due to members	16,267	-	-	16,267
Interim financing	64,978	-	-	64,978
Debenture financing	-	-	251,000	-
	$ 81,245	$ 9,940	$ 251,000	$ 342,185

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

(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 day bankers' acceptance rates. 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.

FNFA periodically enters into derivative financial instruments (note 10(b)) to manage certain interest rate exposure.

14. Comparative figures:

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