Financial Statements of

FIRST NATIONS FINANCE AUTHORITY

Year ended March 31, 2018

FIRST NATIONS FINANCE AUTHORITY

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Statement of Management Responsibility

The financial statements of First Nations Finance Authority (the "FNFA") for the year ended March 31, 2018 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
June 1, 2018

KPMG LLP
200 - 3200 Richter Street
Kelowna BC V1W 5K9
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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, 2018, 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, 2018 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

June 1, 2018
Kelowna, Canada

FIRST NATIONS FINANCE AUTHORITY

Statement of Financial Position

March 31, 2018 with comparative figures for March 31, 2017

		2018		2017
Financial Assets				
Cash and cash equivalents	$	6,356,469	$	4,815,732
Accounts receivable		1,168		25,000
Debt Reserve Funds investments (note 2(a))		24,495,847		16,267,238
Sinking Funds investments (note 3)		19,101,403		10,720,144
Loans to members (note 4)		453,503,952		308,569,191
Restricted cash and cash equivalents (note 5)		8,520,785		7,491,379
		511,979,624		347,888,684
Liabilities				
Accounts payable and accrued liabililties		185,708		198,656
Accrued interest payable		3,646,164		2,243,531
Deferred contributions (note 12)		605,663		330,652
Principal and interest payments received in advance		8,093,328		7,167,344
Due to members (note 2(b))		24,495,847		16,267,238
Interim financing (note 6)		92,663,483		64,977,997
Debenture financing: (note 7)				
Principal		377,000,000		251,000,000
Unamortized net premium		6,715,253		8,084,941
Unamoritized debenture issuance costs		(3,829,318)		(3,596,670)
		509,576,128		346,673,689
Net Financial Assets		2,403,496		1,214,995
Non-Financial Assets				
Credit Enhancement Fund assets (note 8)		30,000,000		20,000,000
Tangible capital assets (note 9)		85,437		37,830
Prepaid expenses		408,616		280,800
		30,494,053		20,318,630
Commitments and contingencies (note 10)				
Accumulated surplus	$	32,897,549	$	21,533,625
Accumulated surplus is comprised of:				
Accumulated surplus (note 11)	$	33,433,245	$	21,790,389
Accumulated remeasurement loss		(535,696)		(256,764)
	$	32,897,549	$	21,533,625

See accompanying notes to the financial statements.

On Behalf of the Board:

Chair

Chief Executive Officer

FIRST NATIONS FINANCE AUTHORITY

Statement of Operations and Acccumulated Surplus

Year ended March 31, 2018 with comparative figures for 2017

	2018 Budget (note 1(g))	2018	2017
Revenue			
Grants and contributions (note 12)	$ 2,925,000	$ 2,930,059	$ 2,878,968
Interest from members	11,965,000	12,402,868	8,773,199
Debenture issuance premium amortization	1,190,000	1,190,319	1,042,140
Investment	585,000	1,014,698	474,107
Management fees	158,000	205,000	138,344
Goods and services tax recovery	-	103,422	-
Net realized gain on derivative contracts	-	2,402	-
	16,823,000	17,848,768	13,306,758
Expenses (note 1 (h))			
Interest on financing	11,888,000	12,263,111	8,868,146
Debenture issuance discount amortization	80,000	56,251	47,224
Debenture issuance costs amortization	531,000	523,352	476,481
Interim financing fees amortization	203,000	248,765	202,779
Financing fees	770,000	529,658	467,893
Professional fees	470,000	386,215	532,274
Travel and workshops	420,000	271,864	299,318
Salaries and benefits	1,110,000	1,140,907	997,646
Operations and management	307,000	276,244	270,374
Investment income due to members	441,000	490,337	249,049
Amortization of tangible capital assets (note 9)	23,000	19,208	17,539
	16,243,000	16,205,912	12,428,723
Annual surplus	$ 580,000	$ 1,642,856	$ 878,035
Credit Enhancement Fund contribution (note 8)	10,000,000	10,000,000	10,000,000
	10,580,000	11,642,856	10,878,035
Accumulated surplus, beginning of year	21,790,389	21,790,389	10,912,354
Accumulated surplus, end of year	$ 32,370,389	$ 33,433,245	$ 21,790,389

See accompanying notes to the financial statements.

FIRST NATIONS FINANCE AUTHORITY

Statement of Cash Flows

Year ended March 31, 2018 with comparative figures for 2017

	2018	2017
Cash provided by (used in):		
Operating transactions:		
Annual surplus	$ 1,642,856	$ 878,035
Investment income due to members	319,686	147,057
Debenture issuance premium amortization	(1,190,319)	(1,042,140)
Debenture issuance discount amortization	56,251	47,224
Debenture issuance costs amortization	523,352	476,481
Interim financing fees amortization	248,765	202,779
Amortization of tangible capital assets	19,208	17,539
Net change in non-cash assets and liabilities:		
Accounts receivable	23,832	(25,000)
Accounts payable and accrued liabilities	(12,948)	(83,923)
Accrued interest payable	1,402,633	1,028,185
Deferred contributions	275,011	330,652
Prepaid expenses	(127,816)	(13,657)
	3,180,511	1,963,232
Investing transactions:		
Acquisition of investments	(16,609,868)	(12,314,068)
Increase in amounts due to members	8,228,609	3,723,548
Increase in restricted cash	(1,029,406)	(1,321,855)
Principal and interest payments received in advance	925,984	1,321,855
	(8,484,681)	(8,590,520)
Financing transactions:		
Loans to members issued	(153,667,400)	(73,549,500)
Repayment of loans to members	8,134,020	10,598,825
Debenture financing issued, principal	126,000,000	111,000,000
Premium (discount) on debenture issuance	(235,620)	6,925,290
Debenture issuance costs	(756,000)	(610,500)
Proceeds from interim financing	92,896,500	65,349,887
Repayment of interim financing	(65,349,887)	(110,412,471)
Interim financing fees paid	(109,891)	(2,317)
	6,911,722	9,299,214
Capital transactions:		
Purchase of tangible capital assets	(66,815)	(21,499)
Increase in cash and cash equivalents	1,540,737	2,650,427
Cash and cash equivalents, beginning of year	4,815,732	2,165,305
Cash and cash equivalents, end of year	$ 6,356,469	$ 4,815,732
Supplemental cash flow information:		
Interest paid	$ 11,469,241	$ 7,333,757
Non-cash activities:		
Net remeasurement loss in loans to members (note 10 (b))	$ 278,932	$ 256,764

See accompanying notes to the financial statements.

FIRST NATIONS FINANCE AUTHORITY

Statement of Changes in Net Financial Assets

Year ended March 31, 2018 with comparative figures for 2017

	2018 Budget (note 1(g))	2018	2017
Annual surplus	$ 580,000	$ 1,642,856	$ 878,035
Changes to non-financial assets			
Acquisition of tangible capital assets	-	(66,815)	(21,499)
Amortization of tangible capital assets	23,000	19,208	17,539
	23,000	(47,607)	(3,960)
Net change in prepaid expenses	-	(127,816)	(13,657)
	23,000	(175,423)	(17,617)
Remeasurement loss on derivative financial instruments (note 10)	-	(278,932)	(256,764)
Increase in net financial assets	603,000	1,188,501	603,654
Net financial assets, beginning of year	1,214,995	1,214,995	611,341
Net financial assets, end of year	$ 1,817,995	$ 2,403,496	$ 1,214,995

See accompanying notes to the financial statements.

FIRST NATIONS FINANCE AUTHORITY

Statement of Remeasurement Gains and Losses

Year ended March 31, 2018 with comparative figures for 2017

		2018		2017
Accumulated remeasurement gains and losses, beginning of year	$	(256,764)	$	-
Net remeasurement gains (losses) realized and reclassified to the statement of operations from:				
Derivative contracts		2,402		-
Unrealized gains (losses) generated during the year from:				
Derivate contracts (note 10)		(281,334)		(256,764)
Net remeasurement gains (losses)		(278,932)		(256,764)
Accumulated remeasurement losses, end of year	$	(535,696)	$	(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.

1. Significant accounting policies (continued):

Debt Reserve Funds:

Under the Act, FNFA is required to establish 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

1. Significant accounting policies (continued):

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.

1. Significant accounting policies (continued):

(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 25, 2017. 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, 2018. 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, 2018 consist of the following:

	2018	2017
Cash and cash equivalents	$ 4,885,336	$ 11,207,097
Government and corporate bonds	19,610,511	5,060,141
	$ 24,495,847	$ 16,267,238

Government and corporate bonds include bonds with maturities from June 2026 to December 2027, with coupon rates from 2.35% to 4.95% and have a total par value of $18,950,000 (2017 - $5,000,000). The market value as at March 31, 2018 was approximately $19,503,000.

(b) Due to members:

Amounts 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, 2018, 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, 2018 consist of the following:

	2018	2017
Cash and cash equivalents	$ 2,065,049	$ 6,482,529
Government and corporate bonds	17,036,354	4,237,615
	$ 19,101,403	$ 10,720,144

Government and corporate bonds include bonds with maturities from May 2024 to September 2024, with coupon rates from 3.05% to 3.4% and have a total par value of $17,215,000 (2017 - $4,000,000). The market value as at March 31, 2018 was approximately $16,953,000.

4. Loans to members:

	2018	2017
Debenture financing loans	$ 361,155,334	$ 243,476,068
Unrealized loss on derivative contracts	(535,696)	(256,764)
Interim financing loans	92,884,314	65,349,887
	$ 453,503,952	$ 308,569,191

The aggregate maturity of loans to members as at March 31, 2018 are as follows:

2019	$ 103,039,427
2020	10,155,113
2021	10,155,113
2022	10,155,113
2023	10,155,113
Thereafter	309,844,073
	$ 453,503,952

(a) Debenture financing loans:

Debenture financing loans to members consists of loans to forty one (2017 – twenty eight) 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%.

4. Loans to members (continued):

(b) Interim financing loans to members:

Interim financing loans to members as at March 31, 2018, consists of loans to fifteen (2017 - ten) borrowing members. The loans bear interest at 3.35% to 3.48%, 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, 2018 (2017 - $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:

	2018	2017
Members capital (note 11(b))	$ 324,035	$ 324,035
Principal and interest payments received in advance	8,093,328	7,167,344
GST recovery held for capital improvements	103,422	-
	$ 8,520,785	$ 7,491,379

6. Interim financing:

	2018	2017
Bankers acceptance liabilities, bearing interest at an average rate of 2.7561% (2017 - 2.1374%)	$ 92,896,500	$ 65,349,887
Deferred interim financing fees	(233,017)	(371,890)
	$ 92,663,483	$ 64,977,997

The interim financing credit facility is available up to a maximum aggregate amount of $175 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, 2018 the margins and rates are as follows. Bankers Acceptance Liabilities as at March 31, 2018 bear interest at the lender's 30 to 60 day bankers' acceptance fee plus a stamping fee of 1.125%. Prime Rate Loans as at March 31, 2018 bears interest at the lender's prime rate plus 0.125% with interest-only payments on a monthly basis. The undrawn portion of the revolving credit facility is subject to a standby fee of 0.20%. 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, 2019.

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 between the FNFA debentures and the interim financing facility. The bonds provide for semi-annual interest payments at 3.4% and 3.05% and payment of the principal at maturity on June 26, 2024 and June 1, 2028 respectively. Debenture discounts or premium and debenture issuance costs including bond forward fees are amortized over the debenture term using the effective interest method. The resulting effective interest rate for the debenture financing is 3.131% (2017 - 3.118%) and 3.138% respectively.

8. Credit Enhancement Fund assets:

FNFA entered into an agreement with Department of Indigenous Services Canada ("ISC"), 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.

During the year ended March 31, 2018, FNFA received Credit Enhancement Fund contributions of $10.0 million (2017 - $10.0 million).

The Credit Enhancement Fund assets, as at March 31, 2018 consist of the following:

	2018	2017
Cash and cash equivalents	$ 323,979	$ 11,310,609
Government and corporate bonds	30,779,118	9,108,808
Due to Operating Fund	(1,103,097)	(419,417)
	$ 30,000,000	$ 20,000,000

Government and corporate bonds include bonds with maturities of April 2018 to December 2027, coupon rates of 2.1% to 4.95% and have a total par value of $30,300,000 (2017 - $9,000,000). The market value as at March 31, 2018 was approximately $28,225,000.

9. Tangible capital assets:

March 31, 2018	Furniture and equipment	Computer equipment	Leasehold improvements	Total
Cost:				
Balance, beginning of year	$ 23,063	$ 64,542	$ -	$ 87,605
Additions	-	53,399	13,416	66,815
Disposals	(3,735)	(16,316)	-	(20,051)
Balance, end of year	19,328	101,625	13,416	134,369
Accumulated amortization:				
Balance, beginning of year	14,645	35,130	-	49,775
Amortization	1,684	15,743	224	17,651
Disposals	(3,294)	(15,200)	-	(18,494)
Balance, end of year	13,035	35,673	224	48,932
Net book value, end of year	$ 6,293	$ 65,952	$ 13,192	$ 85,437

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

Amortization expense for the year ended March 31, 2018 includes amortization of $17,651 plus loss on disposal of tangible capital assets of $1,557 (2017 - $11,891 plus loss on disposal of tangible capital assets of $5,648).

10. Commitments and contingent liabilities:

(a) Commitments

The FNFA entered into a lease agreement for office space, which expires February 2023 and various office equipment leases expiring in January 2021. Total estimated operating lease commitments to maturity are as follows:

2019	$ 138,424
2020	138,930
2021	143,212
2022	139,360
2023	116,133
	$ 676,059

(b) Derivative financial instruments

At March 31, 2018, the FNFA had the following outstanding derivative financial instruments:

- Interest rate swap contract with a notional value of $6.59 million (2017 – $ 6.59 million) whose settlement extends to June 1, 2035.
- Bond forward contract with a notional value of $20.38 million (2017 - $ nil) whose settlement extends to October 31, 2018

The contracts were entered into as devices to control interest rate risk. They were entered into on behalf of borrowing members to provide a fixed lending rate for a predetermined period of time, commencing at the specified future date. At the specified future dates, the FNFA will cash settle the derivative contracts with the financial institution, realizing either gains or losses dependent upon movements in interest rates, and attribute or recover these settlement gains or losses to or from the borrowing member over the remaining term of the loan.

The FNFA categorizes its fair value measurements for derivative contracts according to a three-level hierarchy based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. The three levels of the fair value hierarchy based on the reliability of inputs are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date;
Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
Level 3 inputs are unobservable inputs for the asset or liability.

The derivate contracts are all considered level 2 financial instruments.

10. Commitments and contingent liabilities (continued):

(b) Derivative financial instruments (continued):

During the year ended March 31, 2018 a bond forward contract was settled for a net realized gain of $2,402, which has been reflected in the statement of operations.

The unrealized loss at March 31, 2018, of $535,696 (2016 – $256,764) has been reflected in the statement of remeasurement gains and losses and as an offset to loans to members.

11. Accumulated surplus:

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

	2018	2017
Credit Enhancement Fund	$ 30,000,000	$ 20,000,000
Operating Fund:		
Invested in tangible capital assets	85,437	37,830
Unrestricted	3,347,808	1,752,559
	3,433,245	1,790,389
	$ 33,433,245	$ 21,790,389

(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	Invested in tangible capital assets	Unrestricted	Total
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
CEF 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
Annual surplus (deficit)	550,288	(19,208)	1,111,776	1,642,856
CEF Contribution	10,000,000	-	-	10,000,000
Acquisition of tangible capital assets	-	66,815	(66,815)	-
Transfers	(550,288)	-	550,288	-
Balance March 31, 2018	$ 30,000,000	$ 85,437	$ 3,347,807	$ 33,433,245

12. Grants and contributions:

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

	2018	2017
Comprehensive Funding Arrangement	$ 3,035,722	$ 2,709,620
Grant Agreement	500,000	500,000
Deferred contributions	(605,663)	(330,652)
	$ 2,930,059	$ 2,878,968

ISC 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, 2018 and has been renewed for the March 31, 2019 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, 2018, each interim financing loan to members was funded through interim financing with the same term. FNFA maintains Sinking Funds (note 3) 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, 2018, 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 **2018**

	On demand	Within 1 year	Greater than 1 year	Total
Non-derivative financial liabilities				
Accounts payable and accrued liabilities	$ -	$ 185	$ -	$ 185
Accrued interest payable	-	3,646	-	3,646
Deferred contributions	-	606	-	606
Principal and interest received in advance	-	8,093	-	8,093
Due to members	24,496	-	-	24,496
Interim financing	92,663	-	-	92,663
Debenture financing	-	-	377,000	377,000
Derivative financial liabilities				
Derivative contracts	-	346	189	535
	$ 117,159	$ 12,876	$ 377,189	$ 507,224

13. Financial instruments (continued):

(a) Liquidity risk (continued):

In thousands of dollars				**2017**
	On demand	Within 1 year	Greater than 1 year	Total
Non-derivative financial liabilities				
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	251,000
Derivative financial liabilities				
Derivative contracts	-	147	109	256
	$ 81,245	$ 10,087	$ 251,109	$ 342,441

(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, short term money market instruments, or corporate and government bonds. FNFA is subject to significant interest rate risk in regards to its corporate and government bonds.

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.

13. Financial instruments (continued):

(c) Interest rate risk (continued):

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

Fair value sensitivity analysis for fixed rate instruments

The Authority does not account for any fixed rate financial assets and liabilities at fair value through profit or loss therefore a change in interest rates at the reporting date would not affect profit or loss.

A 100 basis point change in interest rates would have a parallel change in annual surplus, at the reporting date, by $214,800.

14. Comparative figures:

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