Financial Statements of

FIRST NATIONS FINANCE AUTHORITY

Year ended March 31, 2021

And Independent Auditors Report thereon

STATEMENT OF MANAGEMENT RESPONSIBLITY

The financial statements of First Nations Finance Authority (the “FNFA”) for the year ended March 31, 2021 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 20, 2021

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INDEPENDENT AUDITORS' REPORT

To the Members of First Nations Finance Authority

Opinion

We have audited the financial statements of First Nations Finance Authority ("FNFA"), which comprise:

- the statement of financial position as at March 31, 2021
- the statement of operations and accumulated surplus for the year then ended
- the statement of changes in net financial assets for the year then ended
- the statement of cash flows for the year then ended
- the statement of remeasurement gains and losses for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of FNFA as at March 31, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of FNFA in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged With Governance 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.

In preparing the financial statements, management is responsible for assessing FNFA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate FNFA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing FNFA’s financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 FNFA's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on FNFA's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause FNFA's to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

May 20, 2021
Kelowna, Canada

FIRST NATIONS FINANCE AUTHORITY

Statement of Financial Position
March 31, 2021 with comparative figures for 2020
(in thousands)

		2021		2020
Financial Assets				
Cash and cash equivalents	$	20,555	$	14,348
Debt Reserve Funds investments (note 2(a))		68,535		40,853
Sinking Funds investments (note 3)		73,179		49,517
Loans to members (note 4)		1,234,793		711,000
Restricted cash and cash equivalents: (note 5)				
Funds held due to members		16,589		15,829
Principal and interest payments received in advance		13,866		9,409
Other		324		324
		1,427,841		841,280
Liabilities				
Accounts payable and accrued liabilities		380		306
Accrued interest payable		9,411		6,475
Deferred contributions (note 12)		115		199
Due to members (note 2(b))		68,535		40,853
Funds held due to members		16,589		15,829
Principal and interest payments received in advance		13,866		9,409
Interim financing (note 6)		31,239		74,803
Debenture financing: (note 7)				
Principal		1,272,000		678,000
Unamortized premium (discount)		14,951		10,679
Unamoritized debenture issuance costs		(7,158)		(4,326)
		1,419,928		832,227
Net Financial Assets		7,913		9,053
Non-Financial Assets				
Credit Enhancement Fund assets (note 8)		45,500		42,529
Capital assets (note 9)		1,047		234
Prepaid expenses		342		306
		46,889		43,069
Subsequent event (note 6)				
Commitments and contingencies (note 10)				
Accumulated surplus	$	54,802	$	52,122

Accumulated surplus is comprised of:				
Accumulated surplus (note 11)	$	54,722	$	53,173
Accumulated remeasurement gain (loss)		80		(1,051)
	$	54,802	$	52,122

See accompanying notes to the financial statements.

On Behalf of the Board:

Chief Warren Tabobondung - *Chair*

Ernie Daniels - *Chief Executive Officer*

FIRST NATIONS FINANCE AUTHORITY

Statement of Operations and Accumulated Surplus
Year ended March 31, 2021 with comparative figures for 2020
(in thousands)

	2021 Budget (note 1(g))	2021	2020
Revenue			
Grants and contributions: (note 12)			
Funding and grant arrangements	$ 3,911	$ 4,054	$ 4,346
Deferred contributions	-	(115)	(199)
Interest from members	28,468	28,672	22,932
Debenture issuance premium amortization	2,231	2,351	1,622
Investment income	2,130	1,276	2,937
Management fees	355	381	441
Other	21	23	20
	37,116	36,642	32,099
Expenses (note 1 (h))			
Interest on financing	26,610	26,891	21,677
Debenture issuance discount amortization	373	353	354
Debenture issuance costs amortization	857	924	700
Interim financing fees amortization	110	110	104
Financing fees	688	820	541
Professional fees	430	496	395
Travel and workshops	442	100	512
Salaries and benefits	2,368	2,302	1,984
Operations and management	538	475	507
Investment revenue due to members	1,558	1,535	1,089
Amortization of capital assets	122	104	43
	34,096	34,110	27,906
Annual operating surplus	$ 3,020	$ 2,532	$ 4,193
Credit Enhancement Fund contribution (note 8)	-	2,970	12,000
Net realized remeasurement gains (losses)	-	(3,953)	432
Surplus	3,020	1,549	16,625
Accumulated surplus, beginning of year	53,173	53,173	36,548
Accumulated surplus, end of year	$ 56,193	$ 54,722	$ 53,173

See accompanying notes to the financial statements.

FIRST NATIONS FINANCE AUTHORITY

Statement of Changes in Net Financial Assets

Year ended March 31, 2021 with comparative figures for 2020

(in thousands)

	2021 Budget (note 1(g))	2021	2020
Surplus	$ 3,020	$ 1,549	$ 16,625
Changes to non-financial assets			
Increase in Credit Enhancement Fund assets	-	(2,970)	(12,000)
Acquisition of capital assets	-	(917)	(99)
Amortization of capital assets	122	104	43
	122	(3,783)	(12,056)
Net change in prepaid expenses	-	(36)	176
	122	(3,819)	(11,880)
Net remeasurement gains (losses)	-	1,130	(792)
Increase (decrease) in net financial assets	3,142	(1,140)	3,953
Net financial assets, beginning of year	9,053	9,053	5,100
Net financial assets, end of year	$ 12,195	$ 7,913	$ 9,053

See accompanying notes to the financial statements.

FIRST NATIONS FINANCE AUTHORITY

Statement of Cash Flows

Year ended March 31, 2021 with comparative figures for 2020

(in thousands)

	2021	2020
Cash provided by (used in):		
Operating transactions:		
Annual operating surplus	$ 2,532	$ 4,193
Debenture issuance premium amortization	(2,351)	(1,622)
Debenture issuance discount amortization	353	354
Debenture issuance costs amortization	924	700
Interim financing fees amortization	110	104
Amortization of capital assets	104	43
Net realized remeasurement gains (losses)	(3,953)	432
Net change in non-cash assets and liabilities	2,890	1,016
	609	5,220
Investing transactions:		
Acquisition of investments	(51,344)	(23,676)
Increase in amounts due to members	27,682	8,243
Net (increase) decrease in restricted cash	(5,217)	5,225
Increase (decrease) in funds held due to members	760	(6,321)
Increase in principal and interest payments received in advance	4,457	1,096
	(23,662)	(15,433)
Financing transactions:		
Loans to members issued	(553,665)	(141,378)
Repayment of loans to members	31,002	15,563
Debenture financing issued, principal	594,000	163,000
Premium (discount) on debenture issuance	6,270	8,965
Debenture issuance costs	(3,756)	(978)
Proceeds from interim financing	31,294	74,968
Repayment of interim financing	(74,968)	(104,519)
Interim financing fees paid	-	(220)
	30,177	15,401
Capital transactions:		
Purchase of capital assets	(917)	(99)
Increase in cash and cash equivalents	6,207	5,089
Cash and cash equivalents, beginning of year	14,348	9,259
Cash and cash equivalents, end of year	$ 20,555	$ 14,348
Supplemental cash flow information:		
Interest paid	$ 23,955	$ 21,509
Credit Enhancement Fund contributions	2,970	12,000

See accompanying notes to the financial statements.

FIRST NATIONS FINANCE AUTHORITY

Statement of Remeasurement Gains and Losses

Year ended March 31, 2021 with comparative figures for 2020

(in thousands)

		2021		2020
Accumulated remeasurement losses, beginning of year	$	(1,051)	$	(258)
Net remeasurement gains (losses) realized and reclassified to the statement of operations from:				
Derivative contracts		(3,953)		432
Unrealized gains (losses) generated and reversed during the year from:				
Derivative contracts		5,083		(1,224)
Net remeasurement gains (losses)		1,130		(792)
Accumulated remeasurement gains (losses), end of year	$	80	$	(1,051)

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).

In March, 2020, the World Health Organization (WHO) declared the Coronavirus COVID-19 (COVID-19) outbreak a pandemic. This has resulted in governments worldwide, including the Canadian government, to enact emergency measures to combat the spread of the virus. The FNFA Board of Directors have approved and instructed FNFA staff to work with the impacted members by restructuring loan payments, when deemed necessary, to ensure the safe functioning of the member community. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy is not known at this time.

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.

1. Significant accounting policies (a) (continued):

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 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.

1. Significant accounting policies (continued):

(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.

Transfers from governments which FNFA collects as an agent on behalf of its members are recorded on a net basis.

(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.

1. Significant accounting policies (d) (continued):

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) Capital assets:

Capital assets are recorded at cost, net of accumulated amortization. Contributed capital assets are recorded at fair value at the date of contribution and are also recorded as revenue. When management determines that an asset no longer contributes to FNFA's operations, the 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, once the asset is available for use:

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. Areas requiring management estimates include the net recoverable amount and any impairment of financial assets, the fair value of financial liabilities on issuance, the fair value of derivative instruments and the effective interest rate of financial assets and liabilities measured at amortized cost. Actual amounts can differ from these estimates.

(all tabular figures reported in thousands of dollars)

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 28, 2020. 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, 2021. 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, 2021 consist of the following:

	2021	2020
Cash and cash equivalents	$ 66,593	$ 38,911
Government and corporate bonds	1,942	1,942
	$ 68,535	$ 40,853

Government and corporate bonds include bonds with maturities from June 2026 to October 2028, with coupon rates from 2.40% to 3.05% and have a total principal of $1.9 million (2020 - $1.9 million). The market value as at March 31, 2021 was approximately $2.0 million.

(all tabular figures reported in thousands of dollars)

2. Debt Reserve Funds (continued):

(b) Due to members:

Amounts due to members in the Debt Reserve Fund will be repaid to a member when the member has satisfied all obligations related to the applicable loan agreement. The balance owing to members as at March 31, 2021, 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, 2021 consist of the following:

	2021	2020
Cash and cash equivalents	$ 61,868	$ 43,289
Government and corporate bonds	11,311	6,228
	$ 73,179	$ 49,517

Government and corporate bonds include bonds with maturities from April 2024 to June 2030, with coupon rates from 1.25% to 3.40% and have a total principal of $10.9 million (2020 - $5.9 million). The market value as at March 31, 2021 was approximately $10.6 million.

The Sinking Fund investment portfolio includes FNFA issued bonds. At March 31, 2021, the book value of these investments was $5.7 million (2020 – $5.8 million) and related investment income during the year was $0.2 million (2020 – $0.3 million).

(all tabular figures reported in thousands of dollars)

4. Loans to members:

	2021	2020
Debenture financing loans	$ 1,203,728	$ 637,386
Interim financing loans	30,985	74,665
	1,234,713	712,050
Unrealized gain (loss) on derivative contracts	80	(1,051)
	$ 1,234,793	$ 711,000

The aggregate maturity of loans to members as at March 31, 2021 are as follows:

2022	$ 65,522
2023	34,537
2024	34,537
2025	34,537
2026	34,537
Thereafter	1,031,043
	$ 1,234,713

(a) Debenture financing loans:

Debenture financing loans to members consists of loans to seventy-four (2020 – fifty-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 1.90% to 3.79%.

(b) Interim financing loans to members:

Interim financing loans to members as at March 31, 2021, consists of loans to eight (2020 - sixteen) borrowing members. The loans bear interest at 2.40% to 3.65%, payable monthly. Loans to six borrowing members are due on the earlier of demand or the expiry of FNFA's interim financing credit facility described in note 6. Loans to two borrowing members are due in June 2028. The interim financing loans have been issued by FNFA in anticipation of a debenture 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.

4. Loans to members (continued):

(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, 2021 (2020 - $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.

(all tabular figures reported in thousands of dollars)

5. Restricted cash and cash equivalents:

	2021	2020
Funds held due to member	16,589	15,829
Principal and interest payments received in advance	13,866	9,409
Members capital (note 11(b))	324	324
	$ 30,779	$ 25,562

6. Interim financing:

	2021	2020
Bankers acceptance liabilities, bearing interest at an average rate of 1.42% (2020 – 2.5777%)	$ 31,294	$ 74,968
Deferred interim financing fees	(55)	(165)
	$ 31,239	$ 74,803

The interim financing credit facility is available up to a maximum aggregate amount of $220.0 million. Subsequent to year-end, the credit facility was increased to $300.0 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, 2021 the margins and rates are as follows. Bankers Acceptance Liabilities as at March 31, 2021 bear interest at the lender's 30 to 60 day bankers' acceptance fee plus a stamping fee of 1.0%. Prime Rate Loans as at March 31, 2021 bears interest at the lender's prime rate with interest-only payments on a monthly basis. The undrawn portion of the revolving credit facility is subject to a standby fee of 0.175%. Amounts borrowed under the revolving credit facility are due the earlier of the terms of FNFA's interim financing loans to members (note 4(b)) and October 9, 2021.

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.

(all tabular figures reported in thousands of dollars)

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 3.40%, 3.05% and 1.71% and payment of the principal at maturity on June 26, 2024, June 1, 2028 and June 16, 2030 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%, 2.941% and 1.66% respectively.

The maturity of debenture financing as as at March 31, 2021 are as follows:

2024	$ 251,000
2028	427,000
2030	594,000
	$ 1,272,000

(all tabular figures reported in thousands of dollars)

8. Credit Enhancement Fund assets:

FNFA entered into an agreement with Crown-Indigenous Relations and Northern Affairs Canada ("CIRNAC"), on March 24, 2011 and amended on December 6, 2016, March 27, 2019, March 20, 2020, March 31, 2020 and March 29, 2021 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, 2021, FNFA received Credit Enhancement Fund contributions of $2.97 million (2020 - $12.0 million).

The Credit Enhancement Fund assets, as at March 31, 2021 consist of the following:

	2021	2020
Cash and cash equivalents	$ 29,992	$ 41,465
Government and corporate bonds	12,602	2,000
Contribution receivable	2,970	2,500
Due to Operating Fund	(64)	(3,436)
	$ 45,500	$ 42,529

Government and corporate bonds include bonds with maturities of April 2021 to June 2030, a coupon rates of 1.25% to 2.30% and have a total principal of $12.0 million (2020 - $2.0 million). The market value as at March 31, 2021 was approximately $11.9 million.

(all tabular figures reported in thousands of dollars)

9. Capital assets:

March 31, 2021	Furniture and equipment	Computer equipment	Leasehold improvements	Computer Software	Total
Cost:					
Balance, beginning of year	$ 59	$ 91	$ 78	$ 111	$ 339
Additions	117	26	623	151	917
Disposals	(6)	(13)	(1)	-	(20)
Balance, end of year	170	104	700	262	1,236
Accumulated amortization:					
Balance, beginning of year	19	59	27	-	105
Amortization	19	16	63	-	98
Disposals	(4)	(10)	-	-	(14)
Balance, end of year	34	65	90	-	189
Net book value, end of year	$ 136	$ 39	$ 610	$262	$ 1,047

March 31, 2020	Furniture and equipment	Computer equipment	Leasehold improvements	Computer Software	Total
Cost:					
Balance, beginning of year	$ 50	$ 89	$ 78	$ 34	$ 251
Additions	12	10	-	77	99
Disposals	(3)	(8)	-	-	(11)
Balance, end of year	59	91	78	111	339
Accumulated amortization:					
Balance, beginning of year	10	48	14	-	72
Amortization	10	16	13	-	39
Disposals	(1)	(5)	-	-	(6)
Balance, end of year	19	59	27	-	105
Net book value, end of year	$ 40	$ 32	$ 51	$ 111	$ 234

Computer software consist of costs incurred for internally developed software that was not available for use as at March 31, 2021. As a result, no amortization was recorded to March 31, 2021.

(all tabular figures reported in thousands of dollars)

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 October 2025. Total estimated operating lease commitments to maturity are as follows:

2022	$ 168
2023	165
2024	5
2025	5
2026	3
	$ 346

(b) Derivative financial instruments

At March 31, 2021, the FNFA had the following outstanding derivative financial instruments:

- Interest rate swap contract with a notional value of $6.6 million (2020 – $ 6.6 million) whose settlement extends to June 1, 2035.
- Interest rate swap contract with a notional value of $2.3 million whose settlement extends to June 18, 2040.

The contracts were entered into as devices to control interest rate risk. It was entered into at the request 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 FNFA will cash settle the derivative contract with the financial institution, realizing either a receipt of cash or a payment of cash dependent upon movements in interest rates. The amount of cash received or paid upon contract unwind is calculated using a present value formula at the benchmark yield upon settlement.

Under PSAS, these cash settlements are recorded as either a gain or a loss in the year of contract unwind. FNFA is cash neutral, except for the contract fee, as it recovers or attributes these cash settlement amounts to its member(s) over the contract term.

10. Commitments and contingent liabilities (b) (cont.)

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 derivative contract is considered a level 2 financial instrument.

During the year ended March 31, 2021, three bond forward contracts were settled for a net cash payment of $3.95 million. Two contracts were settled as a result of the debenture issuance in June 2020 and one contract was settled as a result of the debenture issuance in January 2021; a net cash payment, recorded as a net remeasurement loss, has been recognized on the statement of operations.

The unrealized gain (loss) on outstanding derivative contracts at March 31, 2021, of $0.08 million (2020 - ($1.1 million) has been reflected in the statement of remeasurement gains and losses and as an offset to loans to members.

(all tabular figures reported in thousands of dollars)

11. Accumulated surplus:

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

	2021	2020
Credit Enhancement Fund	$ 45,500	$ 42,529
Operating Fund:		
Invested in tangible capital assets	1,047	234
Unrestricted	8,175	10,410
	9,222	10,644
	$ 54,722	$ 53,173

(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.

(all tabular figures reported in thousands of dollars)

11. Accumulated surplus (cont.):

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

		Operating Fund		
	Credit Enhancement Fund	Invested in tangible capital assets	Unrestricted	Total
Balance, March 31, 2019	$ 30,529	$178	$ 5,841	$ 36,548
Annual operating surplus (deficit)	1,546	(43)	2,690	4,193
CEF Contribution	12,000	-	-	12,000
Net realized remeasurement loss	-	-	432	432
Acquisition of capital assets	-	99	(99)	-
Transfers	(1,546)	-	1,546	-
Balance, March 31, 2020	$ 42,529	$ 234	$ 10,410	$ 53,173
Annual operating surplus (deficit)	495	(104)	2,140	2,532
CEF Contribution	2,970	-	-	2,970
Net realized remeasurement loss	-	-	(3,953)	(3,953)
Acquisition of capital assets	-	917	(917)	-
Transfers	(495)	-	495	-
Balance March 31, 2021	$ 45,500	$ 1,047	$ 8,175	$ 54,722

12. Grants and contributions:

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

	2021	2020
Comprehensive Funding Arrangement	$ 3,554	$ 3,846
Grant Agreement	500	500
Deferred contributions	(115)	(199)
	$ 3,939	$ 3,655

CIRNAC 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.

(all tabular figures reported in thousands of dollars)

12. Grants and contributions (cont.):

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, 2021 and has been renewed for the March 31, 2022 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, 2021, 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, 2021, FNFA was in compliance with these covenants and restrictions.
The following table summarizes the remaining contractual maturities of FNFA's financial liabilities:

				2021
	On demand	Within 1 year	Greater than 1 year	Total
Non-derivative financial liabilities				
Accounts payable and accrued liabilities	$ -	$ 380	$ -	$ 380
Accrued interest payable	-	9,411	-	9,411
Deferred contributions	-	115	-	115
Principal and interest received in advance	-	13,866	-	13,866
Funds held due to members	16,589	-	-	16,589
Due to members	68,535	-	-	68,535
Interim financing	31,239	-	-	31,239
Debenture financing	-	-	1,272,000	1,272,000
Derivative financial liabilities (assets)				
Derivative contracts	-	-	(80)	(80)
	$ 116,363	$ 23,772	$ 1,271,920	$ 1,412,055

(all tabular figures reported in thousands of dollars)

13. Financial instruments (a) (cont.):

2020

	On demand	Within 1 year	Greater than 1 year	Total
Non-derivative financial liabilities				
Accounts payable and accrued liabilities	$ -	$ 306	$ -	$ 306
Accrued interest payable	-	6,475	-	6,475
Deferred contributions	-	199	-	199
Principal and interest received in advance	-	9,409	-	9,409
Funds held due to members	15,829	-	-	15,829
Due to members	40,853	-		40,853
Interim financing	74,803	-	-	74,803
Debenture financing	-	-	678,000	678,000
Derivative financial liabilities				
Derivative contracts	-	-	1,051	1,051
	$ 131,485	$ 16,389	$ 679,051	$826,925

(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.

13. Financial instruments (c) (cont.):

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 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.

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 operating surplus, at the reporting date, by sixteen thousand one hundred eighty-two dollars (2020 – twenty-four thousand six hundred forty-two dollars).

14. Comparative figures:

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