

Financial Statements of

**FIRST NATIONS FINANCE  
AUTHORITY**

Year ended March 31, 2022

And Independent Auditors Report thereon

## STATEMENT OF MANAGEMENT RESPONSIBILITY

The financial statements of First Nations Finance Authority (the “FNFA”) for the year ended March 31, 2022 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, 2022



KPMG LLP  
200 - 3200 Richter Street  
Kelowna BC, V1W 5K9  
Tel 250-979-7150  
Fax 250-763-0044  
www.kpmg.ca

## 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, 2022
- 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, 2022, 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.



Chartered Professional Accountants

June 1, 2022  
Kelowna, Canada

# FIRST NATIONS FINANCE AUTHORITY

Statements of Financial Position

March 31, 2022 with comparative information for 2021

(in thousands)

	2022	2021
<b>Financial Assets</b>		
Cash and cash equivalents	\$ 405,117	\$ 20,555
Debt Reserve Funds investments (note 2(a))	86,795	68,535
Sinking Funds investments (note 3)	110,870	73,179
Loans to members (note 4)	1,540,542	1,234,793
Restricted cash and cash equivalents: (note 5)		
Funds held due to members	19,834	16,589
Principal and interest payments received in advance	40,046	13,866
Other	324	324
	<b>2,203,528</b>	<b>1,427,841</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	878	380
Accrued interest payable	12,728	9,411
Deferred contributions (note 13)	-	115
Due to members (note 2(b))	86,795	68,535
Funds held due to members	19,834	16,589
Principal and interest payments received in advance	40,046	13,866
Short-term indebtedness (note 6)	400,000	31,239
Debentures: (note 7)		
Principal	1,626,000	1,272,000
Unamortized premium	12,006	14,951
Unamortized debenture issuance costs	(8,354)	(7,158)
	<b>2,189,933</b>	<b>1,419,928</b>
<b>Net Financial Assets</b>	<b>13,595</b>	<b>7,913</b>
<b>Non-Financial Assets</b>		
Credit Enhancement Fund (note 8)	53,163	45,500
Contingency Fund (note 9)	32,550	-
Capital assets (note 10)	1,986	1,047
Prepaid expenses	494	342
	<b>88,193</b>	<b>46,889</b>
<b>Commitments and contingencies (note 11)</b>		
Accumulated surplus	\$ 101,788	\$ 54,802
Accumulated surplus is comprised of:		
Accumulated surplus (note 12)	101,690	54,722
Accumulated remeasurement gains	98	80
	<b>\$ 101,788</b>	<b>\$ 54,802</b>

See accompanying notes to the financial statements.

On Behalf of the Board:



Chief Warren Tabobondung - *Chair*



Ernie Daniels - *President & Chief Executive Officer*

# FIRST NATIONS FINANCE AUTHORITY

Statement of Operations and Accumulated Surplus

Year ended March 31, 2022 with comparative information for 2021

(in thousands)

	2022 Budget (note 1(g))	2022	2021
<b>Revenue</b>			
Grants and contributions: (note 13)			
Funding and grant arrangements	\$ 4,376	\$ 4,810	\$ 4,054
Deferred contributions	-	-	(115)
Interest from loan programs	40,892	38,796	28,672
Debenture issuance premium amortization	2,888	2,888	2,351
Investment	3,419	2,981	1,276
Management fees	565	811	381
Other	23	132	23
	52,163	50,418	36,642
<b>Expenses (note 1 (h))</b>			
Interest on financing	35,516	34,397	26,891
Debenture issuance discount amortization	354	357	353
Debenture issuance costs amortization	1,201	1,177	924
Financing fees	1,642	1,220	930
Professional fees	695	840	496
Travel and workshops	322	211	100
Salaries and benefits	3,088	3,084	2,302
Operations and management	501	524	475
Investment revenue due to members	2,325	2,312	1,535
Amortization of capital assets	159	166	104
	45,803	44,288	34,110
Operating surplus	\$ 6,360	\$ 6,130	\$ 2,532
Credit Enhancement Fund contribution (note 8)	-	7,663	2,970
Contingency Fund contribution (note 9)	32,500	32,489	-
Net realized remeasurement gains (losses)	-	686	(3,953)
Surplus	38,860	46,968	1,549
Accumulated surplus, beginning of year	54,722	54,722	53,173
Accumulated surplus, end of year	\$ 93,582	\$ 101,690	\$ 54,722

See accompanying notes to the financial statements.

# FIRST NATIONS FINANCE AUTHORITY

## Statement of Changes in Net Financial Assets

Year ended March 31, 2022 with comparative information for 2021

(in thousands)

	2022 Budget (note 1(g))	2022	2021
Surplus	\$ 38,860	\$ 46,968	\$ 1,549
Changes to non-financial assets			
Credit Enhancement Fund contributions	-	(7,663)	(2,970)
Contingency Fund contributions	(32,500)	(32,550)	-
Acquisition of capital assets	-	(1,105)	(917)
Amortization of capital assets	159	166	104
	(32,341)	(41,152)	(3,783)
Net change in prepaid expenses	-	(152)	(36)
	(32,341)	(41,304)	(3,819)
Net remeasurement gains	-	18	1,130
Increase (decrease) in net financial assets	6,519	5,682	(1,140)
Net financial assets, beginning of year	7,913	7,913	9,053
Net financial assets, end of year	\$ 14,432	\$ 13,595	\$ 7,913

See accompanying notes to the financial statements.



# FIRST NATIONS FINANCE AUTHORITY

## Statement of Cash Flows

Year ended March 31, 2022 with comparative information for 2021

(in thousands)

	2022	2021
Cash provided by (used in):		
Operating transactions:		
Operating surplus	\$ 6,130	\$ 2,532
Debenture issuance premium amortization	(2,888)	(2,351)
Debenture issuance discount amortization	357	353
Debenture issuance costs amortization	1,177	924
Amortization of capital assets	166	104
Net realized remeasurment gains (losses)	686	(3,953)
Net change in non-cash assets and liabilities	3,600	3,000
	9,228	609
Investing transactions:		
Acquisition of investments	(56,012)	(51,344)
Increase in amounts due to members	18,260	27,682
Net increase in restricted cash and cash equivalents	(29,425)	(5,217)
Increase in funds held due to members	3,245	760
Increase in principal and interest payments received in advance	26,180	4,457
	(37,752)	(23,662)
Financing transactions:		
Loans to members issued	(345,001)	(553,665)
Repayment of loans to members	39,271	31,002
Debenture issued, principal	354,000	594,000
Premium (discount) on debenture issuance	(414)	6,270
Debenture issuance costs	(2,372)	(3,756)
Proceeds from short-term indebtedness	400,000	31,294
Repayment of short-term indebtedness	(31,294)	(74,968)
	414,191	30,177
Capital transactions:		
Purchase of capital assets	(1,105)	(917)
Increase in cash and cash equivalents	384,562	6,207
Cash and cash equivalents, beginning of year	20,555	14,348
Cash and cash equivalents, end of year	\$ 405,117	\$ 20,555
Supplemental cash flow information:		
Interest paid	\$ 31,081	\$ 23,955
Credit Enhancement Fund contribution	7,663	2,970
Contingency Fund contribution	32,489	-

See accompanying notes to the financial statements.

# FIRST NATIONS FINANCE AUTHORITY

## Statement of Remeasurement Gains and Losses

Year ended March 31, 2022 with comparative information for 2021

(in thousands)

	2022	2021
Accumulated remeasurement gains (losses), beginning of year	\$ 80	\$ (1,051)
Net remeasurement gains (losses) realized and reclassified to the statement of operations from:		
Derivative contracts	686	(3,953)
Unrealized gains (losses) generated during the year from:		
Derivative contracts	(668)	5,084
Net remeasurement gains	18	1,131
Accumulated remeasurement gains, end of year	\$ 98	\$ 80

See accompanying notes to the financial statements.

# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

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, Contingency, 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.

##### *Contingency Fund:*

Created through an agreement with Crown-Indigenous Relations and Northern Affairs Canada ("CIRNAC"), the Contingency Fund provides support for FNFA's borrowing members encountering difficulties through the COVID-19 pandemic or other widespread adverse economic events.

# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

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

#### *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.

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

Interest from loan programs with members is recorded as revenue in accordance with FNFA's loan agreements with its members. Investment, management fees, and other revenue is recorded as revenue in the period earned.

# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

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

#### (c) Cash and cash equivalents:

Cash and cash equivalents include 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, government and corporate bonds, short-term indebtedness, and debentures 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.

# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

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

#### (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:

<b>Asset</b>	<b>Basis</b>	<b>Rate</b>
Furniture and equipment	Declining balance	20%
Computer equipment	Declining balance	30 - 45%
Leasehold improvements	Straight-line	5-10 years

#### (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.

#### (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 20, 2021. The budget is reflected in the statement of operations and accumulated surplus and the statement of changes in net financial assets.

# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

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

(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 years presented. 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, 2022 consist of the following:

	2022	2021
Cash and cash equivalents	\$ 72,004	\$ 66,593
Government and corporate bonds	14,791	1,942
	<u>\$ 86,795</u>	<u>\$ 68,535</u>

Government and corporate bonds include bonds with maturities to December 2031, with coupon rates of 2.25% and have a total principal of \$15.0 million (2021 - \$1.9 million). The market value as at March 31, 2022 was approximately \$14.0 million.

(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, 2022, is due upon extinguishment of the underlying loan, consistent with the term of the financing agreements.

# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

### 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, 2022 consist of the following:

	2022	2021
Cash and cash equivalents	\$ 69,448	\$ 61,868
Government and corporate bonds	41,422	11,311
	<u>\$ 110,870</u>	<u>\$ 73,179</u>

Government and corporate bonds include bonds with maturities from April 2024 to December 2032, with coupon rates from 1.25% to 6.65% and have a total principal of \$36.9 million (2021 - \$10.9 million). The market value as at March 31, 2022 was approximately \$39.0 million.

The Sinking Fund investment portfolio includes FNFA issued bonds. At March 31, 2022, the book value of these investments was \$5.6 million (2021 – \$5.7 million) and related investment income during the year was \$0.2 million (2021 – \$0.2 million).



# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

### 4. Loans to members:

	2022	2021
Debenture financing loans	\$ 1,516,892	\$ 1,203,728
Interim financing loans	23,552	30,985
	<u>1,540,444</u>	<u>1,234,713</u>
Unrealized gain on derivative contracts	98	80
	<u>\$ 1,540,542</u>	<u>\$ 1,234,793</u>

The aggregate maturity of loans to members as at March 31, 2022 are as follows:

2023	\$ 68,307
2024	44,872
2025	44,872
2026	44,872
2027	44,872
Thereafter	1,292,649
	<u>\$ 1,540,444</u>

#### (a) Debenture financing loans:

Debenture financing loans to members consists of loans to eighty (2021 – seventy-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:

Interim financing loans as at March 31, 2022, consists of loans to nine (2021 - eight) borrowing members, bearing interest at a floating rate of 1.75% to 2.40%, payable monthly. Loans to seven borrowing members are due on the earlier of demand or the date upon which FNFA issues debentures to replace the interim financing provided to the First Nation. The interim financing loans have been issued by FNFA in anticipation of a debenture issuance. Loans to two borrowing members are long-term financing arrangements due in June 2028. The remaining 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 financing.

# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

### 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, 2022 (2021 - \$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:

	2022	2021
Funds held due to member	\$ 19,834	16,589
Principal and interest payments received in advance	40,046	13,866
Members capital (note 12(b))	324	324
	<u>\$ 60,204</u>	<u>\$ 30,779</u>

# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

### 6. Short-term indebtedness:

	2022	2021
Commercial paper issued	\$ 400,000	\$ -
Revolving credit facility	-	31,294
Deferred credit facility fees	-	(55)
	<u>\$ 400,000</u>	<u>\$ 31,239</u>

In September 2021, FNFA launched its Commercial Paper Program to support its interim financing loans to members. FNFA can issue commercial paper up to a maximum aggregate amount of \$400 million, which is fully backed by a revolving credit facility. Outstanding commercial paper at March 31, 2022 had an average interest rate of 0.63%. The present value of the commercial paper at issuance was not significantly different than its principal amount.

The revolving credit facility terms were amended in the fiscal year to include refinancing loans to members initially financed under the commercial paper program established by FNFA to act as a backstop to the Commercial Paper Program. The revolving credit facility continues to be available to FNFA through the issuance of bankers' acceptance notes or the issuance of loans bearing interest calculated in relation to the lender's prime. The aggregate of \$400 million outstanding between the revolving credit facility and the commercial paper program may not be exceeded. 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, 2022.

### 7. Debentures:

Debentures consist of secured and unsubordinated bonds issued by FNFA. The bonds provide for semi-annual interest payments at 3.40%, 3.05%, 1.71%, and 2.85% and payment of the principal at maturity on June 26, 2024, June 1, 2028, June 16, 2030, and June 1, 2032 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 3.13%, 2.94%, 1.66%, and 2.94% respectively.

The maturity of debenture financing as at March 31, 2022 is as follows:

2024	\$ 251,000
2028	427,000
2030	594,000
2032	354,000
	<u>\$ 1,626,000</u>

# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

### 8. Credit Enhancement Fund:

The Credit Enhancement Fund was established under the Act and funded through several deposits from CIRNAC. 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, 2022, FNFA recognized Credit Enhancement Fund contributions of \$7.66 million (2021 - \$2.97 million).

The Credit Enhancement Fund, as at March 31, 2022 consist of the following:

	2022	2021
Cash and cash equivalents	\$ 14,553	\$ 29,992
Government and corporate bonds	31,017	12,602
Contribution receivable	7,663	2,970
Due to Operating Fund	(72)	(64)
	<u>\$ 53,163</u>	<u>\$ 45,500</u>

Government and corporate bonds include bonds with maturities of June 2030 to December 2032, a coupon rates of 1.25% to 4.25% and have a total principal of \$29.0 million (2021 - \$12.0 million). The market value as at March 31, 2022 was approximately \$28.9 million.

# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

### 9. Contingency Fund:

The Contingency Fund was created and funded in the 2022 fiscal year by contributions of \$32.49 million from CIRNAC. The purpose of the Contingency Fund is to provide repayable financial support for FNFA's borrowing members encountering difficulties due to COVID-19 pandemic or subsequent widespread economic shock. The Contingency Fund must be deposited into a Canadian financial institution that is a member of the Canada Deposit Insurance Corporation. Investment income from the Contingency Fund may be used for FNFA's operational costs. During the year ended March 31, 2022, no loans from the Contingency Fund were made to borrowing members.

Fund activity for the year ended March 31, 2022 is as follows:

Contributions	\$ 32,489
Investment income	61
Loans to borrowing members	-
<hr/> Balance, end of year	<hr/> \$ 32,550

# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

### 10. Capital assets:

March 31, 2022	Furniture and equipment	Computer equipment	Leasehold improvements	Computer Software	Total
Cost:					
Balance, beginning of year	\$ 170	\$ 104	\$ 700	\$ 262	\$ 1,236
Additions	42	89	333	641	1,105
Disposals	(4)	(26)	-	-	(30)
Balance, end of year	208	167	1,033	903	2,311
Accumulated amortization:					
Balance, beginning of year	34	65	90	-	189
Amortization	30	38	93	-	161
Disposals	(1)	(24)	-	-	(25)
Balance, end of year	63	79	183	-	325
Net book value, end of year	\$ 145	\$ 88	\$ 850	\$ 903	\$ 1,986
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

Computer software consist of costs incurred for software that is in the development phase. As it was not available for use as at March 31, 2022, no amortization was recorded to March 31, 2022.

# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

### 11. 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:

2023	\$ 285
2024	262
2025	5
2026	3
	<hr/>
	\$ 555

#### (b) Derivative financial instruments

At March 31, 2022, the FNFA had the following outstanding derivative financial instruments:

- Interest rate swap contract with a notional value of \$6.6 million (2021 – \$ 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. They were 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.

# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

### **11. Commitments and contingent liabilities (b) (cont.)**

The FNFA categorizes its fair value measurements for derivative contracts and investments 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 contracts and investments is considered a level 2 financial instrument.

During the year ended March 31, 2022, one bond forward contract was settled for a cash payment of \$0.69 million. The cash payment is recorded as a remeasurement gain and is recognized on the statement of operations.

The unrealized gain on outstanding derivative contracts at March 31, 2022, of \$0.10 million (2021 - \$0.08 million) has been reflected in the statement of remeasurement gains and losses and as an offset to loans to members.



# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

### 12. Accumulated surplus:

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

	2022	2021
Credit Enhancement Fund	\$ 53,163	\$ 45,500
Contingency Fund	32,550	-
Operating Fund:		
Invested in tangible capital assets	1,986	1,047
Unrestricted	13,991	8,175
	<u>15,977</u>	<u>9,222</u>
	<u>\$ 101,690</u>	<u>\$ 54,722</u>

(b) Members capital:

On April 1, 2006, assets and liabilities of the FNFA Inc., a predecessor organization which was controlled by the same Board as the FNFA, were transferred to the FNFA. The FNFA's Board of Directors has resolved by way of a bylaw that, upon dissolution of the FNFA, the total contribution to the FNFA of \$324,035, being tangible capital assets and retained earnings of the FNFA Inc. on April 1, 2006, shall be first distributed to the public bodies having an interest in members' capital. The members' capital has been recorded as restricted cash and cash equivalents.

# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

### 12. Accumulated surplus (cont.):

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

	Credit Enhancement Fund	Contingency Fund	Operating Fund		Total
			Invested in capital assets	Unrestricted	
Balance, March 31, 2020	\$ 42,530	\$ -	\$234	\$ 10,410	\$ 53,173
Annual operating surplus (deficit)	495	-	(104)	2,141	2,532
Contributions	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
Annual operating surplus (deficit)	638	61	(166)	5,597	6,130
Contributions	7,663	32,489	-	-	40,152
Net realized remeasurement gain	-	-	-	686	686
Acquisition of capital assets	-	-	1,105	(1,105)	-
Transfers	(638)	-	-	638	-
Balance March 31, 2022	\$ 53,163	\$32,550	\$ 1,986	\$ 13,991	\$ 101,690

# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

### 13. Grants and contributions:

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

	2022	2021
Comprehensive Funding Arrangement	\$ 4,310	\$ 3,554
Grant Agreement	500	500
Deferred contributions	-	(115)
	<u>\$ 4,810</u>	<u>\$ 3,939</u>

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.

Under the terms of the Grant Agreement, 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, 2022. The Grant Agreement was increased to \$1,000,000 and has been renewed for the March 31, 2023 fiscal year.

# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

### 14. 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, 2022, each interim financing loan to members was funded through short-term indebtedness. 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 short-term indebtedness (note 6) and Credit Enhancement Fund (note 8).

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

	<b>2022</b>			
	On demand	Within 1 year	Greater than 1 year	Total
<i>Non-derivative financial liabilities</i>				
Accounts payable and accrued liabilities	\$ -	\$ 878	\$ -	\$ 878
Accrued interest payable	-	12,728	-	12,728
Deferred contributions	-	-	-	-
Principal and interest received in advance	-	40,046	-	40,046
Funds held due to members	19,834	-	-	19,834
Due to members	86,795	-	-	86,795
Short-term indebtedness	400,000	-	-	400,000
Debentures	-	-	1,626,000	1,626,000
<i>Derivative financial liabilities (assets)</i>				
Derivative contracts	-	-	(98)	(98)
	\$ 506,696	\$ 53,652	\$ 1,625,902	\$ 2,186,250

# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

### 14. Financial instruments (a) (cont.):

2021

	On demand	Within 1 year	Greater than 1 year	Total
<i>Non-derivative financial liabilities</i>				
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
Short-term indebtedness	31,239	-	-	31,239
Debentures	-	-	1,272,000	1,272,000
<i>Derivative financial liabilities (assets)</i>				
Derivative contracts	-	-	(80)	(80)
	\$ 116,363	\$ 23,772	\$ 1,271,920	\$1,412,055

### (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 and Contingency 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.

Credit risk on loans to members is reduced by ensuring that all members must first comply with imposed financial criteria which define borrowing limits and assess the ability to service new and existing debt. FNFA conducts periodic evaluations of its loans to members, including monthly reviews of expected interception of revenues to actual, to determine if the loans are impaired. FNFA has requirements under its loan agreements that members must pledge other revenues if a revenue stream pledged to FNFA to service debt is impaired.

# FIRST NATIONS FINANCE AUTHORITY

## Notes to Financial Statements

Year ended March 31, 2022

(all tabular figures reported in thousands of dollars)

### **14. Financial instruments (cont.):**

#### (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 and Contingency Fund assets and investments are held in cash, short term money market instruments, or corporate and government bonds. FNFA is subject to interest rate risk in regard to its corporate and government bonds (notes 2, 3, and 8).

FNFA is subject to interest rate risk with respect to its short-term indebtedness, which bears interest at variable rates. FNFA monitors interest rate risk on short-term indebtedness and negotiates interest rates on interim financing loans to members in relation to these rates.

FNFA periodically enters into derivative financial instruments (note 11(b)) to manage certain interest rate exposure.

#### *Fair value sensitivity analysis for fixed rate instruments*

FNFA 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 \$43,000 (2021 – \$16,000).