

*Expanding Your Housing Options*



# *Annual Report 2009*

Housing by Choice





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### **Forward-Looking Statements**

The First Nations Market Housing Fund's (the Fund) Annual Report contains forward-looking statements regarding objectives, strategies and expected financial results. There are risks and uncertainties beyond the control of the Fund that include, but are not limited to, economic, financial and regulatory conditions. These factors, among others, may cause actual results to differ substantially from the expectations stated or implied in the forward-looking statements.





## *Mandate*

The First Nations Market Housing Fund is designed to facilitate access to financing for market-based housing purposes in First Nation communities. The Fund will also help to create the capacity in First Nation communities to support the administration of market-based housing programs, thereby contributing to the social welfare and civic improvement of First Nation communities and their residents. An over-arching goal is to promote a system that allows First Nation residents the same housing opportunities and responsibilities in their communities as other Canadians.

## *Message from the Chairperson of the Trustees*

Ahneen,

The First Nations Market Housing Fund (the Fund) is the first national fund created to support financing arrangements for housing on reserve and settlement lands where appropriate, while respecting the communal ownership of land. And I am pleased to say that in 2009 we continued to demonstrate success in bringing this option to First Nation communities across Canada.



John Beaucage, Chairperson, running with Olympic Torch, Parry Sound, ON

You will see in these pages that we achieved strong results. As Trustees of the Fund, we managed our resources in a prudent manner, ensuring that we met our obligations while building funds for more First Nations to benefit from, both with our loan backing and our capacity development.

The Investment and Human Resource Committees of the Board of Trustees established their respective mandates and set about providing advice and guidance to the Trustees as a whole. We held our first annual strategic planning session with the staff so that we could consider our future direction and how best we might get there, and we started to get ready to plan for the evaluation of the Fund, even though it will not start until mid 2011.

We welcomed the approval of five additional First Nations to receive our backing, and capacity development funding, while two First Nations who are keen to work toward implementing market-based housing in their communities were approved for our capacity building support. Two more financial institutions became participating lenders, and more are on the way.

While we met our goal with respect to approving additional lenders, we fell short on the targets for First Nations and units backed by the Fund in 2009. While we have evidence that the Fund is viewed by many as the right choice, it takes time for a First Nation government – as any government - to make an informed decision. We continue to respect the processes

followed by First Nation governments as they apply them to their decision making, whether it is to authorize an application to the Fund, approve the lending parameters or enter into agreements with the Fund and lenders. All of these important steps take time and the support of their citizens.

On behalf of the Trustees, I am proud to present the Fund's accomplishments for 2009.

We still have so much more to do. As the momentum continues to build we welcome more invitations to our staff to visit communities to describe how the Fund can have a positive impact in helping you achieve your housing goals.

Meegwetch

A handwritten signature in black ink, appearing to read 'JB', with a stylized flourish at the end.

John Beaucage

## *Message from the Executive Director*

It is my privilege to present the second Annual Report of the First Nations Market Housing Fund.

This past year has been both tremendously challenging and satisfying.

Our client base is building. We have developed a relationship with more than 100 First Nations. That does not mean that each one has agreed to apply to the Fund. It means that representatives of these nations - either individually or as a group - have taken the time to consider what the Fund has to offer. Some have applied while others are in the process or are weighing their choices. They are assessing what the Fund provides both in terms of financial backing and capacity development and deciding how best to use the Fund to meet their housing goals and strengthen their communities in the areas of financial management, governance and community commitment. In the odd case where a First Nation has decided not to work with us, we respect their choice, and we wish them well.



2009 was a year of staff changes at the Fund. The sudden passing of our friend and colleague, Robert Restoule cannot go unmentioned. Bob was a key member of our inaugural team here at the Fund - committed to making a difference. We miss him and we continue to do the good work of which he was so proud.

Even strong communities can become stronger with our support. And those communities with weaknesses that are hindering the achievement of their market-based housing goals can overcome barriers with our assistance. We recognize the challenges of putting together yet another application when there is just so much to do in a community, and so many competing priorities. That is why we changed our processes in 2009 to be more helpful to communities as they put together application packages. And, that is why we have openly encouraged



First Nations to focus on time sensitive matters, such as Canada's Economic Action Plan (CEAP). The Fund will still be here when you are ready to apply – and we will work with you to determine how best the Fund can complement your other housing initiatives.

Once again I wish to express my appreciation to the Trustees, for their leadership and guidance, and the staff for their hard work. We have an enthusiastic group of people working at the Fund. Staff bring expertise from communities across Canada with experience in housing, housing finance, First Nation governance and the political arena.

Together we are making a difference.

With respect,

A handwritten signature in black ink, appearing to read 'Deborah Taylor', with a stylized, cursive script.

Deborah Taylor



Maurice A. Biron, Trustee;  
Dean Ozanne, Trustee



John Beaucage, Chairperson;  
Benoit Taillon, Trustee



Jim Prodger, Trustee



Eric J. Menicoche, Trustee



Randall E. Swanson, Trustee;  
Gail Shawbonquit, Trustee



Ruth Williams, Vice Chairperson

## *Governance*

The governance, management and operations of the Fund are in accordance with the terms and conditions of the Fund's enabling documents which include an Indenture of Trust and a Funding Agreement with Canada Mortgage and Housing Corporation (CMHC) designed to protect the federal funding and set parameters for the administration of the funding over the long term. A five-year Management Agreement between CMHC and the Fund describes certain services CMHC has agreed to provide in respect of the operation and investment management for the Fund.

Control of the Fund is overseen by nine trustees who have been drawn from First Nations, the Government of Canada and the private sector financial community. Of the nine Trustees, six were appointed by the Minister for CMHC and three were appointed by the Minister for the Department of Indian Affairs and Northern Development (DIAND). The CMHC Minister appointed a Chairperson and a Vice-Chairperson from among the Trustees. The initial terms of three of the Trustees expire in March 2010.

The Trustees provide governance and leadership and are stewards of the Fund. The Trustees are responsible for the Fund achieving its objectives and ensuring prudent investment and safeguarding of assets, financial accountability and regular reporting of results. In support of these responsibilities, the Trustees have established an Audit Committee and set out its mandate. By the second quarter of 2009, the Investment Committee and the Human Resources Committee, both of which were established by the Trustees in 2008, were up and functioning with mandates approved by the Trustees.

The Trustees meet face-to-face four times a year to review regular business and once per year to plan strategically. They have decided that one face-to-face meeting each year will be held in a First Nation community; the others are held at the Fund's Ottawa office. In 2009 a meeting was held at the Wasauksing First Nation in Ontario.

The Fund has 11 positions located in Ottawa, Ontario.

## *Board of Trustees*

**Chairperson - John Beaucage** (Ontario)  
Wasauksing First Nation

**Vice-Chairperson - Ruth Williams**  
(Kamloops, British Columbia)  
Shuswap First Nation

**Maurice A. Biron** (Toronto, Ontario)  
Garden River First Nation

**Eric J. Menicoche** (Fort Simpson, Northwest Territories)  
Liidlii Kue First Nation

**Dean Ozanne** (Calgary, Alberta)

**Jim Prodger** (Truro, Nova Scotia)

**Gail Shawbonquit** (Ontario)  
Whitefish Lake First Nation

**Randall E. Swanson** (Gimli, Manitoba)

**Benoit Taillon** (Montreal, Quebec)

### **Audit Committee**

Chairperson – Maurice A. Biron  
Randall E. Swanson  
Eric J. Menicoche  
Jim Prodger

### **Investment Committee**

Chairperson - Dean Ozanne  
Benoit Taillon

### **Human Resources Committee**

Chairperson - Ruth Williams  
Gail Shawbonquit



Wasauksing First Nation, ON

## *External Environment*

In 2009, momentum continued to build across Canada among First Nations seeking to expand housing options on reserve to address the needs in their communities.

According to the Assembly of First Nations, 87,000 new units are required to meet the housing needs of First Nations people. The shortfall has contributed to well-known problems including overcrowding where the average occupant density of First Nations homes is double that of homes off-reserve. The associated problems of overcrowding are also well-known including mold and moisture problems, additional wear and tear on the home and poorer health and education outcomes for children.

While the Government of Canada spends approximately \$270 million through INAC and CMHC annually to build and service homes on reserve, the present need in First Nation communities is far greater than what can be accomplished with current levels of government funding. The need is not a static number. The demand for new homes will rise dramatically over the next 10-15 years due to the high number of young people in First Nation communities and the new households they will form. According to the 2006 Aboriginal Census fully 50% of First Nation people were under the age of 25.

Based on the experience of First Nations operating successful programs, market-based housing can take time to become accepted among members. Programs may require years to become established and to demonstrate success, and youth need to grow up experiencing the benefits for themselves. Therefore, to serve the next generations, the best time to put in place home ownership options on reserve is now.

New leaders are emerging who advocate for self-government and self-sufficiency and market-based housing fits these goals very well. According to the 2006 Aboriginal Census, the employment rate for First Nation people was 63%, up from 2001. Better employment leads to better affordability for members, and more members desiring choice. Given the pressures, more communities have expressed an interest into providing these housing options for their members.

Implementing a market-based housing system in a community is not necessarily a straightforward process and the pace of progress can be influenced by both internal and external factors. While the desire may exist to develop new options, the demands on First Nation housing staff are high; often times, starting something new in addition to their regular duties is very difficult. In recent years ongoing land claims have occupied the attention of some 20% of First Nations. Lack of land suitable for building and shortages in infrastructure have made it difficult for some communities to embrace additional housing notwithstanding it may be what both leadership and members want.

In 2009, many First Nations committed their resources to applying for a portion of the additional housing funds announced as part of Canada's Economic Action Plan (CEAP). The Government of Canada provided \$400 million over 2009-10 and 2010-11 to support on-reserve housing. The application procedure was time-sensitive, so ensuring their communities applied on time for CEAP funding became a high priority for First Nation leadership and staff. Now the focus has turned to implementing those projects and ensuring the housing is built and the funding expended as required by Government. In several instances, First Nations reported having to direct their scarce resources to this process and to delay applying to the Fund. The Fund supported these decisions.



James Bay, northern Ontario

In 2009, the international financial crisis also had an effect on the Fund. Although the Bank of Canada kept interest rates low to encourage borrowing, and housing loans on reserve have been historically safe for financial institutions, some lenders indicated they could not spend the time to seriously consider becoming a participating lender with the Fund as their attention was elsewhere. Similarly, First Nations whose community members depend on the resource sector for employment were affected by depressed prices and associated layoffs.

Some First Nation communities located more than an hour from urban centres have been more hesitant to embrace market-based housing after witnessing housing prices slump and increased urbanization and the waning populations of small towns. For these First Nations, market-based housing may be suitable for members who do not intend to leave the community and as source of rental housing for community workers.

Another source of change in the housing landscape in 2009 affecting First Nation communities was the new accounting standard required effective with fiscal years beginning on or after January 1, 2009 whereby First Nations must now report capital assets including infrastructure, buildings, and homes as depreciating assets. Under the old system, homes often had no value on the First Nation's financial statements. Through these changes, some First Nations have come to appreciate that they are the owners of some valuable real estate. Some communities are moving toward improving portfolio management and running social housing units on reserve as businesses, prompting a re-evaluation of rent collection and tenant responsibility. Others are looking into the possibility of selling the homes to their members. First Nations interested in either of these options have been encouraged to consider the Fund's Capacity Development Program to support policy development and implementation.

## *How the Fund Works*

The First Nations Market Housing Fund is a self-sustaining, independent and not-for-profit trust with two clear goals:

1. Facilitate the availability of private-sector financing for and the accessible supply of market-based housing in First Nation communities; and
2. Increase the capacity of First Nations seeking to expand or develop market-based housing.

The Fund builds on the successes of innovative communities. It is strictly optional. It does not replace any existing programs. Instead, the Fund works in tandem with existing programs to expand market housing on reserve.

### **WHAT IS MARKET-BASED HOUSING?**

Market-based housing is a broad term that encompasses private home ownership, rentals, and rent-to-own housing. Simply put, it means the owners and occupants pay for the cost of their housing either through rental or loan payments. Market-based housing gives First Nations a powerful means to invest in their communities, and it gives First Nation families the ability to invest in their futures by building personal wealth in their homes. It also contributes to the sustainability of existing programs by providing another option and allowing funds to be targeted to where they are needed most.

### **HOW DOES THE FUND ACCOMPLISH THIS?**

The Fund qualifies a First Nation and provides a partial financial backing for housing loan guarantees made to financial institutions. The First Nation then uses this backing to negotiate an arrangement with an approved lender or lenders so that their members can apply directly to the lender(s) for financing. The financing will help build, buy or renovate a home on reserve or settlement lands where appropriate, to either own or to rent. Due to the communal nature of the land, the First Nation needs to guarantee the housing loans of its members.

If a borrower defaults on an eligible loan, the lender will seek compensation from the First Nation. Should the First Nation not honour its obligation as guarantor, the lender will be able to turn to the Fund for compensation up to the amount of backing accumulated by the lender for loans made in the community. The Fund itself does not provide loans.

## THE FUND:

### **Supports arrangements between First Nations and Lenders**

The Fund has created an alternate form of security for housing loans made on reserve or settlement lands which will attract lenders and give First Nations leverage to negotiate more favourable interest rates, risk-sharing agreements, reduced program access fees, and administrative arrangements. In this way, people on reserve will have the same housing choices and opportunities as people in non First Nation communities.

### **Respects the Communal Nature of Reserve Land**

Off reserve, lenders take land as security in exchange for housing loans. On reserve, land is held by the Crown for the benefit of the First Nations' members, therefore it is considered communal. Because lenders cannot use communal land as security, this has made it more difficult for First Nation members to obtain housing loans in their communities. The backing provided by the First Nations Market Housing Fund, in conjunction with First Nation guarantees, attracts lenders by offsetting the security issue while preserving the communal nature of reserve land.

### **Increases the Capacity of First Nations**

The Fund has established a Capacity Development Program which provides funding for First Nation communities that meet or are close to meeting the Fund's criteria for the Credit Enhancement Facility, but have areas which could strengthen or improve. Funding for capacity development supports the provision of training, advice and coaching which focuses on improving market-based housing capacity for qualified First Nations and members of these communities.

## ACCESS CRITERIA

Access criteria are based on principles, not rules. The criteria are separated into three pillars:

- Financial Management;
- Good Governance; and
- Evidence of Community Demand and Support for Market-Based Housing.

First Nations choose how best to satisfy each principle by demonstrating their own strengths in each of the pillars.



## HOW TO APPLY

Only First Nations with reserve or settlement lands where appropriate, are eligible to apply. The Fund does not charge an application fee, nor does it charge any type of service fee. The only costs are the time it takes to prepare the application and supporting documents, and postage to send your application to our office. Here's how to apply:

- Complete the application for Credit Enhancement
- Complete the self-assessment form
- Gather the supporting documentation
- Mail all of the above to our office

There are two minimum requirements:

1. A Resolution from Chief & Council affirming your First Nation's application to the Fund; and
2. Three years of unqualified, consolidated audited financial statements, including notes.

## *Our Lending Partners*

We are proud to have the following lenders approved to offer loans backed by the Fund. Each of these lenders is seeking to work with First Nation communities and individuals in providing innovative financing options in housing, community infrastructure and indeed, community building.

Available for First Nations nationally:



### **BMO Bank of Montreal Aboriginal Banking**

The Aboriginal Banking Unit at BMO Bank of Montreal was created in October 1992 to contribute to the self-sufficiency of Aboriginal peoples across Canada. The unit is working to build mutually beneficial sustainable relationships by designing and delivering with Aboriginal communities, businesses and individuals a comprehensive range of financial products and services.

This spirit of partnership and cooperation between BMO and Aboriginal peoples has already manifested itself with the opening of branches and community banking outlets within Aboriginal communities, the implementation of on-reserve housing programs with government guarantees and with improved access to financing opportunities at all levels.

BMO has been recognized by the Canadian Council for Aboriginal Business with a gold level Progressive Aboriginal Relations award for its ability to build financial relationships by ensuring that appropriate Aboriginal protocols and processes are recognized and followed in order to earn the respect and trust of the Aboriginal communities they serve.



**PEACE Hills TRUST®**

### **Peace Hills Trust**

Peace Hills Trust is Canada's Premier First Nation Trust Company. Established in 1980, Peace Hills Trust has over 29 years of experience serving the financial needs of their customers across Canada.

They employ over 120 people who serve more than 20,000 personal and business customers. Peace Hills Trust provides financial services across Canada through a network of eight Regional Offices and electronic services accessible around the world.

Peace Hills Trust has a full range of deposit services and specializes in On Reserve financing for infrastructure, housing and business loans. Peace Hills Trust has provided On Reserve Mortgage Financing for homes and businesses for over 29 years.

Market housing on reserve is a growing trend. It certainly is being used to various degrees and Peace Hills Trust feels that the First Nations Market Housing Fund is a strong option for First Nations individuals to have their residential on reserve property value fully realized in a growing market scenario.

*Available for First Nations in British Columbia:*

## **Vancity**

### **Vancouver City Savings Credit Union**

Vancity is working actively to deepen and broaden its relationship with the Aboriginal community and is excited to be the first credit union in Canada to participate in the First Nations Market Housing Fund.

Vancity believes in taking a holistic approach, bringing the talents and resources of the entire Vancity Group together to support and assist Aboriginal organizations and First Nations in their efforts to improve the standard of living of their members and move forward in their goal of self-reliance and independence.

Vancity also believes that the key to success is building trusting relationships early on. By working in partnership with First Nations governments, Aboriginal organizations and communities, they can create new and sustainable solutions that address the need for additional capital and improved access to financial services to support individuals, families and new businesses.



### **Envision Financial**

Envision Financial is a division of First West Credit Union, B.C.'s third largest credit union with 37 branches and 29 insurance offices throughout the Lower Mainland, Fraser Valley, Kitimat and Thompson-Okanagan-Similkameen regions. First West has approximately \$5.6 billion in assets under administration, 167,000 member-owners, and more than 1,150 employees. For eight years running, Envision has been named one of the 50 Best Employers in Canada and is designated a "Caring Company" by Imagine Canada.

*Available for First Nations in Ontario and Quebec:*



### **Desjardins Group**

Desjardins Group is the largest cooperative financial group in Canada, and the sixth largest in the world. Desjardins Group is backed by the strength of its caisse network and is home to a wealth of expertise in property and casualty insurance, life and health insurance, wealth management, services of businesses of all sizes, securities brokerage, venture capital, asset management and secure leading-edge virtual access methods, all part of an integrated offer that is the only one of its kind in Canada. One of the largest employers in the country, Desjardins draws on the knowledge and skills of its 42,000 employees and the commitment of its 6,300 elected officers.

## *Our First Nation Clients*

### **MIAWPUKEK FIRST NATION**

Miawpukek First Nation was the first First Nation approved for housing loans backed by the Fund. This Mi'kmaq community is located on the south coast of the island part of the province of Newfoundland and Labrador. By land it is 224 km from the nearest service center, the international airport town of Gander.

The site was originally used as one of many semi-permanent camping sites by their ancestors who were at the time still nomadic and traveling throughout Newfoundland, Labrador, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Maine. According to traditional oral history, Miawpukek became a permanent community sometime around 1822. The reserve was established in 1870, and was officially designated as Samiajjj Miawpukek Indian Reserve under the Indian Act in 1987.

Since being established as a reserve in 1987, Miawpukek has gone from a poor, isolated community with almost 90% unemployment, to a strong vibrant community with nearly 100% full time/part-time employment.



Miawpukek First Nation, NF

Miawpukek’s membership is approximately 2600 with over 800 people living in the community. Home ownership is very much a priority in this community. The Fund’s Credit Enhancement Facility will provide options for Miawpukek’s members to not only construct new homes, but also to obtain loans to renovate their existing homes.



Pictured left to right: John Beaucage, Chairperson; Chief Mi’sel Joe, Miawpukek First Nation – celebrating the announcement of the first community approved for the Fund’s backing

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“Everything we do is community driven and our staff have this in their minds during administration of the Housing Authority’s policies and procedures - this includes the Market Housing Fund’s process. Our community wants extra assurances over and above the bank and the Fund’s requirements. We (The Fund and MFN) have to create and implement it.”

– **Tammy Drew, General Manager, Miawpukek First Nation**

## MEMBERTOU FIRST NATION



Chief Terrance Paul, Membertou First Nation, NS

Named after the Grand Chief Membertou (1510-1611) the Membertou First Nation belongs to the greater tribal group of the Mi'kmaw Nation. Membertou is situated 3 kms from the heart of the city of Sydney, Nova Scotia, within its tribal district of Unama'ki (Cape Breton). It is one of five Mi'kmaw communities in Cape Breton, and one of 13 in the Province of Nova Scotia. Membertou is an urban First Nation community consisting of more than 1,150 band members — approximately 750 of whom live on reserve.

In 1995, the Membertou Band faced significant challenges including financial difficulties, low morale, and a high unemployment rate. It was then that Chief Terrance Paul decided it was time for a major change. With great determination, he and the council recruited band members that had previously left the reserve years to pursue an education and were now employed in senior positions in both private business and government off reserve.

This newly formed leadership decided that an unprecedented approach for Membertou was needed and it began by putting its financial house in order while embracing transparency and accountability. Although these tasks required sacrifice, they generated a renewed sense of accomplishment and discipline that quickly earned the respect of external parties in government and industry.

The First Nation has since formed lucrative partnerships with private industry and is the first Aboriginal government in the world to meet the ISO quality management standards. Strong leadership and strategic decision-making have led to new opportunities, which continue to build momentum for Membertou's aspirations of financial independence and self-determination.

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“The staff at the First Nations Market Housing Fund worked closely with Membertou to guide us through the application process which allowed the process to move forward easily.”

– Jennifer Martin, Policy Coordinator, Membertou First Nation



Membertou Trade and Convention Centre, NS

## LAC LA RONGE INDIAN BAND

Located in north-central Saskatchewan, the Lac La Ronge Indian Band is the largest First Nation in Saskatchewan, and one of the 10 largest in Canada. With a population of approximately 8,800, Lac La Ronge is a multi-community Band with six communities and 18 reserves extending from rich farmlands in central Saskatchewan, north through the boreal forest to the mighty Churchill River and beyond. The communities of Stanley Mission, Grandmother's Bay, and Little Red River are all self-administered, ensuring greater control over the delivery of programs and services. Hall Lake and Sucker River are administered through a central administration office located in La Ronge, 241 km north of Prince Albert, on the edge of the Pre-Cambrian Shield.



Lac La Ronge Indian Band, SK

Lac La Ronge has a history of innovative programming and economic development successes that continue to provide opportunities for their members today. Kitsaki Management owns and has investments in several companies and strives to employ band members. In 2004/05, Lac La Ronge received national recognition after it developed and began operating the first formal on-reserve home ownership program in Saskatchewan. The communities are proud of their heritage and Cree language and of the educational opportunities and social development work made possible by many years of strong leadership.



Band office in Lac La Ronge, SK

### **BATCHEWANA FIRST NATION**

The Batchewana First Nation of Ojibways is located on the north-eastern corner of Lake Superior and the St. Mary's River area adjacent to the City of Sault Ste. Marie, Ontario. The First Nation has a total population of 2,400, approximately 72% of whom reside off-reserve.



Band office in Batchewana First Nation, ON





Powwow in Batchewana First Nation, ON

Batchewana First Nation is comprised of four reserve communities: Rankin Reserve, Goulais Bay Reserve, Obadjiwan Reserve, and Whitefish Island Reserve. The administrative offices are located on Rankin Reserve which is bordered on three sides by the city of Sault Ste. Marie. Facilities operated by the First Nation include an Administration/Cultural Centre, Health Centre, Family Crisis Shelter, an Elders' Complex, Day Care, Arena, Youth Centre, Police Station, Gas Bar, Confectionary Store and the Batchewana Learning Centre.

Batchewana First Nation's business operations are comprised of Arena operations, building and equipment rental enterprises, and community operations including Bingo. Economic development ventures range from renewable energy initiatives, including wind and solar power generation, to sustainable agriculture. Leadership have taken a principled approach to development ensuring economic gain will not supersede the integrity of the environment or its protection.

Batchewana First Nation has a highly developed housing program which acknowledges that different members have different needs and it attempts to accommodate as many situations as possible. This has led to the creation of multiple options, both market-based and social in nature.

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“Once you begin completing the application process for the First Nations Market Housing Fund it moves relatively quickly, especially with the cooperation and assistance from the staff at the First Nations Market Housing Fund.”

– **Cathy Connor, Chief Administrative Officer,  
Batchewana First Nation**

## SEABIRD ISLAND FIRST NATION

Seabird Island First Nation is located in the upper Fraser Valley near the town of Agassiz, British Columbia. The name Seabird Island is derived from the June 1858 grounding of the paddle wheeler Sea Bird on an island in the Fraser River across from a Halq'emeylem village located at a point traditionally called Sqewqéyl, or "turn in the river." In 1958, Seabird Island was designated an independent band.

Today, Seabird Island is a service hub for several regional First Nations communities due to its high level of administrative capacity and quality delivery of services and programs including health and social programs, early childhood education, employment and training services, and fire and rescue services.

The community is known for good governance and has been recognized for an innovative environmentally-sensitive housing project completed in 2004, which was designed to provide quality, affordable rental housing on-reserve. The homes have a lifespan of 100 years, over double the length of most homes on reserve.

Seabird Island First Nation exists to promote a healthier, self-sufficient, self-governing, unified and educated community. Its decisions are guided by a commitment to realize Vision 2020, a strategic multi-year plan to achieve physical, emotional, mental, spiritual and cultural balance for all members of the community.



Aerial view of Seabird Island First Nation, BC

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“The First Nations Market Housing Fund will provide an easier and quicker process for Seabird Island members to acquire individual home ownership. First Nations Market Housing have also helped and will continue to better equip our staff to facilitate this process”.

– Lisa Douglas, Finance Manager, Seabird Island First Nation

Band leadership will use the Fund to train staff and create more home ownership and market-based housing options for their members, who are increasingly able to build and purchase homes using their own income thanks to Seabird Island's diversified economic development activities.



Seabird Island First Nation, BC

## ONION LAKE CREE NATION

Onion Lake Cree Nation (OLCN) straddles the border between Saskatchewan and Alberta in Treaty 6 territory, 50 kilometers north of Lloydminster. The total population of the Cree Nation is 4,780 citizens.

The community is located on fertile, rolling hills that are prime for agricultural use, and beneath the surface there is proven production from oil and gas fields. As a result the community has entered into several long-term economic development partnerships to take sustainable development advantage of these natural resources. The process is guided by community and strong governance mechanisms based on Cree Worldview.

Chief Wallace Fox recently announced a major commitment to improve housing and infrastructure for OLCN members. The First Nation recently completed a 58-unit project and is currently constructing 41 on-reserve housing units, renovating a school, and upgrading water and sewer infrastructure. These projects are being financed through a combination of private and public sources, which is considered a best practice for First Nation development.

In addition to partnering with the Fund, Onion Lake has made the commitment to assist members in home renovations and mortgaging homes. As well, OLCN is assisting members wishing to become homeowners by making a capital contribution toward establishing a Home Mortgage Trust and by granting a portion of the down payment for members who qualify for loans through a private lender program.



Onion Lake Cree Nation, SK

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“As Executive Director of Operations with Onion Lake Cree Nation, I want to celebrate our community’s excitement in positioning our Cree Nation as a proven governance and financial entity to explore opportunities to service our citizens with Home options now and into the future.”

– **Winston Walkingbear, Executive Director of Operations,  
Onion Lake Cree Nation**



Onion Lake Cree Nation, SK

## *2009 Activities and Accomplishments*

"Housing by Choice" - it came to us as an appropriate, descriptive theme for our second Annual Report. In so many ways it reflects what happened during the year. Several choices were presented to First Nations, beginning with whether they would choose to invite the Fund into their community to discuss the products, services and benefits the Fund has to offer. For those First Nations who chose to make an application, they determined their priorities and decided how best the Fund could help them meet their housing goals. Each First Nation made choices about the type of loans they wanted to guarantee and the lenders they wanted to work with. For those pursuing capacity building initiatives, they decided how best to meet their needs and in what order to tackle initiatives. The choice will continue as members in communities approved for the Fund's backing decide what type of housing they want to buy or build, or how they wish to improve their current home through renovations.



Workshop on good governance including presentation by Long Plain First Nation, MB sponsored by the First Nations Market Housing Fund – Aboriginal Financial Officers Association (AFOA) Conference, Calgary, AB

Throughout 2009 our staff traveled extensively across Canada wherever interest in the Fund was expressed. Beyond the obvious usefulness of delivering our message directly to First Nations and lenders, community contact allows us to gather first-hand knowledge of the housing issues and situations in First Nations across the country. This experience allows us to provide quality, up to date information on best practices and housing trends to our First Nation clients.

In 2009 staff met in more than 40 First Nation communities with both leadership and administration. We participated in more than 20 regional events and 5 national conferences. We were in many parts of the country from coast to coast to coast, urban, rural and remote. In 2010 we plan to visit First Nations in the Northwest Territories.



Michael McGregor, Senior Program Officer providing information to Jennifer Martin, Membertou First Nation

National events included our participation at two Assembly of First Nations (AFN) conferences – an Economic Development Summit in Toronto and the Annual General Assembly in Calgary. Both events provided great opportunities to meet with many leaders from across Canada to share information about the Fund's product offerings.



Pictured left to right: Fund staff – Kevin McLeod, Senior Business Development Officer; Michael McGregor, Senior Program Officer; Julie Bourk, Senior Program Officer

The Aboriginal Financial Officers Association (AFOA) National Conference was also held in Calgary. As a corporate member of AFOA the Fund values the sharing of best practices in financial management and governance that AFOA showcases and was proud to sponsor a session on good governance including a presentation by the Long Plain First Nation in Manitoba.



Pictured left to right: Earl Commanda, FNMHF Program Manager; Colleen Francis, APC Housing Administrative Assistant; Mimiges Tomer, APC Housing Policy Analyst; Simon Osmond, APC Housing Senior Policy Analyst - Atlantic Policy Congress (APC) Infrastructure and Housing Network

For the first time since the Fund began operations in 2008, we participated at the CANDO conference, held this year at Enoch First Nation in Alberta. Opportunities to present our offerings to those involved in economic development ventures proved valuable as we were able to demonstrate the link of these opportunities to market-based housing.



Keewatin Tribal Council Chiefs Annual Assembly, Tataskweyak Cree Nation, MB



Tataskweyak Cree Nation, MB

Another exciting national event for the Fund was our tradeshow participation at the Canadian Aboriginal Festival held this year in Hamilton, Ontario. As Canada's largest Aboriginal festival, we were again able to meet with many people to discuss how the Fund could work and benefit their First Nation community. Some talked to us about how they would like to move back home, and how they would welcome the option of the Fund.

Fund staff have continued to make an effort to seek out other sources of funding to support or complement the development of market housing programs. Meetings were held with representatives of government organizations with the goal of determining how our offerings could best complement one another. This type of complementary capacity development is quite exciting as it can create a synergistic effect and shorten the implementation time for market-based housing programs on reserve.



Pictured left to right: Ruth Williams, Vice-Chairperson; Deborah Taylor, Executive Director - Prince George, BC Homeownership Workshops



Pictured left to right: Earl Commanda, Program Manager; Kevin McLeod, Senior Business Development Officer - Canadian Aboriginal Festival (CAF), Hamilton, ON



The First Nations Market Housing Fund represents a new way of thinking about housing in First Nation communities across Canada. It is not a typical delivery program; it helps bring new and expanded housing options to communities, working in addition to what already exists. Here's a listing of other regional multi-stakeholder events that the Fund staff attended in order to spread the word about our exciting work:

Chiefs of Ontario Annual Assembly, Batchewana, ON

Atlantic Policy Congress Infrastructure and Housing Network, Dartmouth, NS

First Nations Housing Conference, Vancouver, BC

Federation of Saskatchewan Indian Nations Assembly, Saskatoon, SK

Alberta Chapter Aboriginal Financial Officers Association, Enoch AB

Ontario First Nations Technical Services Corporation, Sault Ste. Marie, ON

Keewatin Tribal Council, Tataskweyak Cree Nation, MB

Manitoba Keewatinowi Okimakanak Assembly, Opaskwayak Cree Nation, MB

Homeownership Workshops, Westbank, Prince George and Cowichan, BC

First Nations Alberta Technical Services Advisory Group Edmonton, AB

CMHC/INAC/Assembly of First Nations Quebec-Labrador Housing Conference, Montreal, QC

File Hills Qu'Appelle Tribal Council, SK

Northern Aboriginal Housing Conference, Whitehorse, YK

Shuswap Nation Tribal Council, Kamloops, BC

Nishnawbe Aski Nation Annual Assembly, Chapleau, ON



Northern Aboriginal Housing Conference, Whitehorse, YK

## *Management Discussion and Analysis*

### **VISION**

The Fund works to facilitate access to financing for market-based housing in First Nations communities and build the capacity of First Nations to support the administration of market-based housing programs. The Fund accomplishes this through core business activities. A summary of the 2009 performance measures set forth and the results are presented herein.

### **CORE BUSINESS ACTIVITIES – MEASURES AND RESULTS**

#### **Program Activities**

**Credit Enhancement Facility** – This facility provides assurances to third party lenders and insurers that repayment of financing arranged for housing by a qualified First Nations community will be honoured up to the limit of the agreed upon Credit Enhancement in the event that a First Nation fails to fulfill its responsibility for the repayment of a loan default.

<b>Credit Enhancement</b>	<b>Performance Measures</b>	<b>2009 Results</b>
Market the Credit Enhancement Facility	30 First Nations approved	5 First Nations approved
	2 Lenders approved	2 Lenders approved
	1,200 Units approved	0 units approved

While the Fund met its target with respect to the number of lenders it approved to provide loans under the Credit Enhancement Facility, it fell short on its target for First Nation approvals and housing units approved.

Although many First Nations contacted during 2009 showed interest in the Fund, applications were not received to the extent anticipated. The decision-making process by First Nation governments takes time as with any government, as it involves leadership, administration and the mandate of its citizens. The Fund respects that the work involved in securing approval to apply through a Band Council Resolution, putting an application together, implementing an approval and executing agreements with various parties has to be undertaken at the pace of

the First Nation, in consideration of all of their other priorities. At the end of the year there were 6 applications approved for Credit Enhancement and Capacity Development, including one from 2008, 2 applications approved for Capacity Building and 8 applications under review. An additional 10 First Nations had indicated they had passed a Band Council Resolution and would be submitting an application in the coming weeks.

The Fund fully expects to back housing loans in several communities in 2010.

**Capacity Development Program** – This program supports the provision of training, advice, and coaching that focuses on developing market-based housing capacity for clients and is tailored to the individual needs of First Nations. This assistance may also enhance the professional development of housing inspectors, housing managers, land managers and finance officers, among others. The maximum total available in any given year for the Capacity Development Program shall not exceed 50% of the preceding year’s net income which is calculated as investment revenue less expenses. Any unexpended amounts at the end of each year may be carried forward to be spent in subsequent years.

Capacity Development	Performance Measures	2009 Results
Implement the Capacity Development Program	Number of First Nations assisted by Capacity Development funds that become eligible for Credit Enhancement.	One First Nation benefited from Capacity Building in 2009. Two communities were approved for Capacity Building with the intent of qualifying for Credit Enhancement in the future.

The Fund issued a Request for Standing Offer in 2009 inviting Aboriginal businesses to describe their services related to the Fund’s access criteria: financial management, governance and community commitment. A list of qualified trainers who are capable of providing training to First Nations and their members was established. The Capacity Development training program began in the third quarter of 2009 when the first community was ready to start working on its capacity building initiatives. As a result, far less was expended on Capacity Development than planned, thus increasing the carryover provision to future years.

## Support Activities

**Investments** - The Fund is self-sustaining over the long term, through the investment of its contribution and the reinvestment of a portion of its revenues. All investment activity conforms to the requirements of the Fund's Statement of Investment Policy and the Fund's Investment Strategy, both of which are revisited annually.

Investment Services	Performance Measures	2009 Results
Establish Investment Services	Investment income is sufficient to cover administrative expenses.	Investment Income exceeded administrative expenses.
	Investment income is sufficient to generate Capacity Development funding for 2010.	Capacity Development funding available for 2010 – \$5,289,127.

Investment income in 2009 was sufficient to provide for both administrative expenses and funding for training requirements in 2010.

**General Administration** - To remain a strong organization that is able to fulfill its mandate, the Fund draws on sound financial and risk management policies, efficient and reliable information technology processes and systems, and effective human resources management.

Administrative Services	Performance Measures	2009 Results
Establish Administrative Services	Approval of Business Plan by the CMHC Minister.	Business Plan approved.
	Obtain a ruling regarding the non-taxable status.	Ruling not obtained.
	Approval of the Human Resources Policy.	Policy not approved.

In 2009, the Fund had discussions with the Canada Revenue Agency ("CRA"). At the conclusion of the most recent round of discussions, the CRA was not prepared to support the Fund's position that it is non-taxable. The Fund is currently considering its alternatives on how to proceed to ultimately gain its support for the non-taxable status.

The Human Resource Policy was drafted in 2009 and is expected to be approved in 2010 after additional research and validation are completed. People engaged to work at the Fund in 2009 are originally from communities in different parts of Canada thus bringing varied experiences, skills and contacts to the Fund.

## SUMMARY OF FINANCIAL RESULTS

### Accounting Policies

As a not-for-profit organization, the Fund follows accounting standards prescribed by the Canadian Institute of Chartered Accountants (CICA) for not-for-profit organizations. The Indenture of Trust establishing the Fund requires that all income, gains and contributions after expenses be accumulated and added to the assets of the Fund and be devoted exclusively for achieving the objectives of the Fund. As a result, the Fund's investment income along with the original \$300 million contribution is recorded directly to the Deferred Contribution rather than being reflected on the Statement of Operations as income for the period (as one normally sees in a profit-oriented organization). Investment income is recognized as revenue in the period in which the related expenses are recognized.

Effective January 1, 2009, the Fund adopted a number of amendments to Canadian Institute of Chartered Accountants ["CICA"] Section 3855 Financial Instruments – Recognition and Measurement. The amendments relate to revised definitions of certain financial assets, methods of assessing impairments for certain financial assets, reclassifications of financial assets, assessment of embedded derivatives on reclassification of a financial asset out of the held-for-trading category and subsequent accounting of impaired financial assets. The amendments did not have an impact on the financial position, cash flows, or earnings of the Fund.

Regarding future accounting changes, the Accounting Standards Board ["AcSB"] of the CICA has announced that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards ["IFRS"] commencing January 1, 2011.

The AcSB and the Public Sector Accounting Board ["PSAB"] are working together to assess the strategic direction of financial reporting standards for not-for-profit organizations in Canada.

The PSAB has announced that government not-for-profit organizations (“GNFPO”) are not required to adopt IFRS, but should a GNFPO adopt IFRS, it must do so in its entirety. For those GNFPO’s that are not applying IFRS, the existing accounting standards used by the not-for-profit sector — those from the CICA Handbook – Accounting — will continue to apply, unchanged, until proposed new directions for not-for-profit organizations in both the public and private sectors are developed and published for comment, consultation is conducted and the standards are finalized.

The Fund will continue to apply existing accounting standards used by the not-for-profit sector until new directions for not-for-profit organizations have been finalized.

### Financial Highlights

Financial results as compared to plan are as follows:

\$	2009 Plan	2009 Results
Investment Income	11,545,000	9,431,223
Administration Expense	3,099,000	2,247,062
Start-up Expenses	0	75,528
Cash and Cash Equivalents	6,196,000	7,957,975
Long Term Investments	303,595,000	301,011,248
Funds available for 2010 Capacity Development	3,450,000	5,289,127

Investment income was below plan as a result of lower than planned interest rates during 2009.

Administration expenses were under plan by approximately \$850,000 primarily as a result of Management Fees not being required to the extent planned, travel costs related to on-site visits and capacity development planning not being needed due to a lower volume of applications than anticipated, legal fees expense being less than planned, and other items such as travel expenses incurred by Trustees and computer services not being needed to the extent planned.

Certain Start-up expenses were incurred in 2009, related to professional advice regarding the Fund’s non-taxable status and the finalization of agreement templates.

The 2009 Statement of Investment Policy requires the Fund to keep a minimum of 2% of its investments in cash or cash equivalent investments, which allows a maximum of 98% to be invested in long-term fixed income instruments. The plan reflects these exact percentages at the end of 2009. The actual figures at the end of 2009 were 97.4% in long-term instruments and 2.6% in cash and cash equivalents.

Based on 2009 results, up to \$5,289,127 is available for Capacity Development in 2010. Any unexpended amounts at the end of 2010 may be carried forward to be spent on Capacity Development activities in subsequent years.

## RISK MANAGEMENT

Risk management is an ongoing process which is integral to the day-to-day operation of the Fund. While the Fund acknowledges that it cannot eliminate risk totally, Trustees, management and staff ensure that existing risks are managed and that emerging risks are identified and managed in a balanced manner. The Fund groups its risks in three broad categories:

- Business risks – risks which can fundamentally affect the ability of the Fund to deliver on its mandate;
- Reputation risks – risks associated with how the Fund is perceived by stakeholders including individual borrowers, First Nations, lenders, insurers, the media and the wider public; and
- Operational risks including financial – risks associated with the ability of the Fund to generate sufficient cash flows to meet its financial requirements including credit, market and liquidity and also to operational risks generally related to the effective use of the Fund's resources in carrying out its business functions such as people, internal processes and/or systems.

Responsibility for risks is shared between the Trustees, management and staff. Quarterly risk management reports are reviewed by the Audit Committee and the Trustees. Actions to address risks are adjusted as appropriate.

## OUTLOOK FOR 2010

Following is a summary of the performance measures set forth for 2010.

<b>Credit Enhancement</b>	<b>2010 Performance Measures</b>
Market the Credit Enhancement Facility	35 New Qualified First Nations
	2 New Qualified Lenders
	300 Units Approved
<b>Capacity Development</b>	<b>2010 Performance Measures</b>
Deliver the Capacity Development Program	Number of First Nations assisted by Capacity Development funds that become eligible for Credit Enhancement.
	Tangible new strength demonstrated in the community as a result of Capacity Development funding
	Capacity Development funding commitments provided to First Nation communities
<b>Investment Services</b>	<b>2010 Performance Measures</b>
Effectively Manage Investment Services	Investment income is sufficient to meet Fund objectives
<b>Administrative Services</b>	<b>2010 Performance Measures</b>
Manage Administrative Services	Revised accounting standards in place, if required
	Tax ruling obtained
	Approval of 2011 Business Plan
	New staff engaged in accordance with Fund's Human Resources Policy
	Baseline data identified and captured where available for CMHC Minister's performance evaluation



The goal this year will be to approve applications from 49 First Nations under the Fund's Credit Enhancement Facility, thus reaching the Fund's overall target of 55 approvals by year end 2010. The Fund has adjusted its staff and its processes and can meet this target if the applications are completed by First Nations. Given all of the other priorities a First Nation government has, gathering and submitting documentation to support an application has proven challenging. Fund staff will assist in facilitating the application process by providing advice and guidance to First Nation leadership and administration, and by helping to ease the gathering process.

Applications from First Nations for the Credit Enhancement Facility have confirmed the need to customize capacity development plans to meet the needs. While the list of qualified Aboriginal trainers is one source of capacity the Fund is using, efforts will also be directed toward identifying other methods to meet requirements, such as course attendance at recognized institutions.

As at the end of 2009, the Fund had virtually achieved its objective of having 98% of its investments in long-term instruments. It is expected that investment income earned in 2010 will be sufficient to provide for both administrative expenses and funding for capacity development training requirements in 2011.

Regarding its tax status, the Fund plans to pursue all available avenues to support its position with the CRA, and the courts, if necessary, to ultimately determine that the Fund is non-taxable.

In the area of Administration, as the Fund evolves toward greater independence and seeks to both recruit and retain qualified, motivated staff, the establishment of tailored policies in areas such as human resource management will become increasingly important. Additional effort will be expended toward developing the right policies in 2010.

Planned financial results for 2010 are as follows:

\$	2010 Plan
Investment Income	9,601,000
Administration Expense	3,845,000
Cash and Cash Equivalents	6,222,000
Long Term Investments	304,876,000
Funds available for 2011 Capacity Development	3,979,000

The 2010 investment income is planned to be slightly greater than that achieved in 2009 as 97.4% of investments are now in long-term instruments which earn higher yields than in cash equivalent instruments. During 2009, there was a higher percentage invested in cash equivalents as the Fund gradually moved towards 97.4% invested in long-term investments by year-end.

Adjustments to all of the above-noted projections will be considered as part of the 2011 planning process.

## *Financial Statements*

### **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

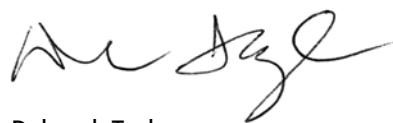
For the year ended December 31, 2009

The First Nations Market Housing Fund management is responsible for the integrity and objectivity of the financial statements and related financial information presented in this annual report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and consequently include amounts which are based on the best estimates and judgement of management. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

The First Nations Market Housing Fund maintains appropriate systems and related internal controls to provide reasonable assurance that financial information is reliable, assets are safeguarded, transactions are properly authorized and in accordance with relevant legal documents governing the Fund, resources are managed efficiently and economically, and operations are carried out effectively.

The Board of Trustees, through an Audit Committee, oversees management's responsibilities for financial reporting and internal control systems. The Board of Trustees, upon the recommendation of the Audit Committee, has approved the financial statements.

The financial statements have been audited by Ernst & Young LLP in accordance with Canadian generally accepted auditing standards. Ernst & Young has full access to, and meet periodically with, the Audit Committee to discuss their audit and related matters.



Deborah Taylor  
Executive Director



George Jenkins  
Manager, Fund Administration

## AUDITORS' REPORT

To the Trustees of the  
**First Nations Market Housing Fund**

We have audited the statement of financial position of the **First Nations Market Housing Fund** as at December 31, 2009 and the statements of operations, statement of changes in deferred contribution and statement of cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ottawa, Canada,  
January 15, 2010.

*Ernst + Young LLP*

Chartered Accountants  
Licensed Public Accountants

## First Nations Market Housing Fund

**STATEMENT OF FINANCIAL POSITION**

As at December 31

	2009	2008
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents <i>[note 4]</i>	7,957,975	155,167,117
Accrued interest receivable	1,839,203	1,137,208
Accounts receivable	—	99,094
	<u>9,797,178</u>	<u>156,403,419</u>
Long-term investments <i>[note 5]</i>	301,011,248	148,622,070
Capital assets, net <i>[note 7]</i>	271,918	340,434
<b>Total assets</b>	<b>311,080,344</b>	<b>305,365,923</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities <i>[notes 8 and 13]</i>	426,075	1,797,968
	<u>426,075</u>	<u>1,797,968</u>
Deferred lease inducement	71,017	90,836
Deferred contributions <i>[note 6]</i>	310,583,252	303,477,119
<b>Total liabilities</b>	<b>311,080,344</b>	<b>305,365,923</b>

Commitments and contingent liabilities *[notes 9 and 12]**See accompanying notes*

On behalf of the Trustees:

Maurice Biron  
Audit ChairpersonJohn Beaucage  
Chairperson

## STATEMENT OF OPERATIONS

	Year ended December 31, 2009	Nine-month period ended December 31, 2008
	\$	\$
<b>REVENUE</b>		
Recognition of deferred contributions related to current year operations	2,325,090	2,357,404
<b>Total revenue</b>	<b>2,325,090</b>	<b>2,357,404</b>
<b>EXPENSES</b>		
Administration [note 13]	2,247,062	1,385,917
Start-up costs [note 13]	75,528	971,487
Capacity development [note 10]	2,500	—
<b>Total expenses</b>	<b>2,325,090</b>	<b>2,357,404</b>
<b>Excess of revenue over expenses for the period</b>	<b>—</b>	<b>—</b>

See accompanying notes

## STATEMENT OF CHANGES IN DEFERRED CONTRIBUTION

	Year ended December 31, 2009	Nine-month period ended December 31, 2008
	\$	\$
<b>Balance, beginning of period</b>	<b>303,477,119</b>	<b>—</b>
Contributions received	—	300,000,000
Investment income	9,431,223	5,834,523
Recognized as revenue to match expenses	(2,325,090)	(2,357,404)
<b>Total deferred contribution end of period</b>	<b>310,583,252</b>	<b>303,477,119</b>

See accompanying notes

## STATEMENT OF CASH FLOWS

	Year ended December 31, 2009 \$	Nine-month period ended December 31, 2008 \$
<b>Cash flow provided by operating activities</b>		
Excess of revenue over expenses for the period	—	—
Add (deduct) items not affecting cash		
Depreciation of capital assets	70,925	33,302
Amortization of deferred lease inducement	(19,819)	(8,258)
Net change in operating working capital balances <i>[note 11]</i>	(1,602,257)	288,223
Net increase in deferred contributions	7,106,133	3,477,119
Non-cash amortization of premiums and discounts	2,725,113	282,147
	<u>8,280,095</u>	<u>4,072,533</u>
<b>Cash flow used in investing activities</b>		
Acquisition of capital assets	(374,946)	(1,199)
Purchase of long-term investments	(155,114,291)	(223,193,153)
Sale and maturity of long-term investments	—	74,288,936
	<u>(155,489,237)</u>	<u>(148,905,416)</u>
<b>Cash flow provided by financing activities</b>		
Contribution from Government of Canada	—	300,000,000
	—	300,000,000
Net increase (decrease) in cash and cash equivalents during the period	(147,209,142)	155,167,117
Cash and cash equivalents beginning of period	155,167,117	—
<b>Cash and cash equivalents end of period</b>	<u>7,957,975</u>	<u>155,167,117</u>
Capital assets purchased included in accounts payable <i>[note 11]</i>	—	372,537

See accompanying notes

## NOTES TO FINANCIAL STATEMENTS

December 31, 2009

### 1. NATURE OF OPERATIONS

The First Nations Market Housing Fund [the "Fund"] was established on March 31, 2008 through an Indenture of Trust in the Province of Ontario. The purpose of the Fund is to facilitate the availability of financing for, and the accessible supply of market-based housing in First Nations communities. The Fund will also help to create the capacity in First Nations communities to become self-sufficient in developing and sustaining market-based housing, thereby contributing to the social welfare and civic improvement of First Nations communities and their residents. The maximum amount available for capacity development in any given year shall not exceed 50% of the preceding period's net income [note 10]. An over-arching goal is to move to a system that provides to First Nations residents the same housing opportunities and responsibilities in their communities as other Canadians. The Fund operates on a not-for-profit basis. The beneficiary of the Fund is Her Majesty the Queen in Right of Canada.

On April 28, 2008, the Fund entered into the following agreements with Canada Mortgage and Housing Corporation ["CMHC"]:

- A Funding Agreement which sets out the terms and conditions for the transfer and use of a \$300 million contribution from the Funder ["CMHC"] on behalf of the Government of Canada to the Fund. This agreement provides additional direction of the Fund's non-profit activities, reporting obligations, permitted use of funding and duties of Trustees.
- A Management Agreement which sets out the terms and conditions for the management of day-to-day activities of the Fund by the Manager ["CMHC"] on behalf of the Fund. The term of the Management Agreement is for five years.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ["GAAP"] applicable to not-for-profit organizations. The significant accounting policies used in the preparation of these financial statements conform in all material respects with Canadian GAAP and are summarized as follows:



## *First Nations Market Housing Fund*

### **Use of estimates**

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. Actual results could differ from those estimates and where different, the impact will be recorded in future periods. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies.

### **Financial instruments**

Due to the short-term nature, the carrying amount of accounts receivable and accounts payable and accrued liabilities approximates their fair values.

Cash equivalents are initially recognized at fair value. The fair value of a financial instrument on initial recognition is based on the transaction price that is, the fair value of the consideration given or received. As these financial instruments are classified as held-to-maturity, they are subsequently measured at amortized cost using the effective interest rate method. The fair value of cash equivalents is disclosed in note 4.

Long-term investments are initially recognized at fair value. As these financial instruments are classified as held-to-maturity, they are subsequently measured at amortized cost using the effective interest rate method. The fair value of long-term investments is disclosed in note 5.

Settlement-date accounting is used to record the purchase and sale of investments. Premiums and discounts are amortized to income using the effective interest rate method over the period to maturity. All transaction costs are expensed in the period incurred.

### **Cash and cash equivalents**

Cash and cash equivalents are comprised of cash and short-term, highly liquid investments with an original term to maturity of 98 days or less that are readily convertible to known amounts of cash. Cash equivalents are classified as held-to-maturity and are measured at amortized cost.

Cash equivalents must be rated by at least two rating agencies as outlined in the table below. If an issuer has no long-term rating, one short-term rating is required for investments with a term of less than one year. In instances where the rating agencies' opinions differ, the lowest available rating shall be used for the purpose of determining an instrument's eligibility for investment.

Minimum rating criteria			
Term	Moody's	S&P	DBRS
Less than 365 days	P-1 / Aa3	A-1 / AA-	R-1(mid) / AA(low)

### Long-term investments

Long-term investments are purchased with the intention to hold until maturity and are therefore designated as held-to-maturity. Premiums and discounts are amortized to income using the effective interest rate method over the period to maturity. Gains and losses on disposal and impairments are recorded in income in the period incurred.

Long-term investments must be rated by at least two rating agencies as outlined in the table below. In instances where the rating agencies' opinions differ, the lowest available rating shall be used for the purpose of determining an instrument's eligibility for investment.

Minimum rating criteria			
Term	Moody's	S&P	DBRS
>1 year	Aa3	AA-	AA(low)

### Capital assets

Capital assets comprise of furniture and equipment and leasehold improvements made to the Fund's office space. Capital assets are recorded at acquisition cost. Depreciation of furniture and equipment is provided on a declining balance basis over the assets' estimated useful life at a rate of 20%. Leasehold improvements are amortized over the term of the lease which is five years.

### Lease inducements

Lease inducements provided by the lessor of the Fund's office space include the reimbursement of a portion of the leasehold improvement costs. These benefits are recorded as a liability and are accounted for as a reduction to rental expenses over the term of the lease which is five years.

### **Revenue recognition**

The Fund follows the deferral method of accounting for contributions. Investment income is deferred and recognized as revenue in the period in which the related expenses are recognized.

### **Start-up costs**

All of the start-up costs are expensed as incurred.

### **Credit enhancement facility**

Under its Credit Enhancement Facility, the Fund provides guarantees to third party lenders and insurers that repayment of financing arranged for housing in qualified First Nations communities will be honoured up to the limit of the agreed upon Credit Enhancement in the event that a First Nation fails to fulfill its responsibility for the repayment of a loan default. The Fund's accumulated Credit Enhancement coverage cannot exceed the net worth of the Fund, with the Fund defining net worth as the difference between what the Fund owns and what it owes. As long as the Fund remains a going concern, the deferred contribution is not considered an amount owing by the Fund.

### **Leases**

The Fund classifies leases as capital or operating at the outset of the lease agreement based on whether the terms transfer substantially all the benefits and risk incident to ownership to the Fund.

### **Income taxes**

The Fund is accounted for as an entity that, pursuant to section 149 of Income Tax Act (Canada) [the "Act"], is not subject to income taxes on its taxable income.

The Fund has had discussions with the Rulings Directorate ["CRA Rulings"] of the Canada Revenue Agency ["CRA"] about its non-taxable status. At the conclusion of the most recent round of discussions, CRA Rulings was not prepared to support the Fund's position that it is non-taxable pursuant to subsection 149(1) of the Act. The Fund is currently considering its alternatives on how to proceed with further discussions with the CRA to ultimately gain its support for the Fund's non-taxable status.

The Fund plans to pursue all available avenues to support its position with the CRA, and the courts, if necessary, to ultimately determine that the Fund is exempt from Part I tax under the Act. Should it ultimately be determined that the Fund is subject to income tax, any income taxes owing since inception of the Fund would be approximately \$90,000 [2008 - \$12,000].

### **Changes in accounting policies**

Effective January 1, 2009, the Fund adopted a number of amendments to Canadian Institute of Chartered Accountants [“CICA”] Section 3855 Financial Instruments – Recognition and Measurement. The amendments relate to revised definitions of certain financial assets, methods of assessing impairments for certain financial assets, reclassifications of financial assets, assessment of embedded derivatives on reclassification of a financial asset out of the held-for-trading category and subsequent accounting of impaired financial assets. The amendments did not have an impact on the financial position, cash flows, or earnings of the Fund.

### **Credit risk and the fair value of financial assets and financial liabilities**

The Fund adopted CICA Handbook Emerging Issues Committee [“EIC”] abstract 173 on January 1, 2009 which requires an entity to take into account its own credit risk and that of its counterparties when determining the fair value of financial assets and financial liabilities, including derivative instruments.

This abstract was applied retrospectively without restatement of prior period’s financial statements. The adoption of EIC-173 did not have an impact on the Fund.

## **3. FUTURE ACCOUNTING CHANGES**

The Accounting Standards Board [“AcSB”] of the CICA has announced that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards [“IFRS”] commencing January 1, 2011.

The AcSB and the Public Sector Accounting Board [“PSAB”] are working together to assess the strategic direction of financial reporting standards for not-for-profit organizations in Canada.

The PSAB has announced that government not-for-profit organizations ["GNFPO"] are not required to adopt IFRS, but should a GNFPO adopt IFRS, it must do so in its entirety. For those GNFPO's that are not applying IFRS, the existing accounting standards used by the not-for-profit sector — those from the CICA Handbook – Accounting — will continue to apply, unchanged, until proposed new directions for not-for-profit organizations in both the public and private sectors are developed and published for comment, consultation is conducted and the standards are finalized.

The Fund will continue to apply existing accounting standards used by the not-for-profit sector until new directions for not-for-profit organizations have been finalized.

#### 4. CASH AND CASH EQUIVALENTS

The following table shows the composition of cash and cash equivalents.

	2009	2008
	\$	\$
Cash	33,371	678,672
Government of Canada Treasury Bills	7,924,604	154,488,445
	<b>7,957,975</b>	<b>155,167,117</b>

As at December 31, 2009, the fair value of the Fund's investments in Government of Canada Treasury Bills was \$7,924,802 [2008 - \$154,863,000].

#### 5. LONG-TERM INVESTMENTS

The following table shows the contractual maturity structure and average yield for the long-term investments:

	Within 1 year \$	1 to 3 years \$	3 to 5 years \$	Over 5 years \$	2009 \$	2008 \$
Provincial Bonds	18,365,359	35,670,950	49,891,653	146,904,416	250,832,378	148,622,070
Other Bonds	11,011,768	24,339,696	10,097,670	4,729,736	50,178,870	—
Total	29,377,127	60,010,646	59,989,323	151,634,152	301,011,248	148,622,070
Yield	2.13%	2.80%	3.44%	4.08%	3.51%	3.80%

As at December 31, 2009, the fair value of the Fund's long-term investments was \$306,103,221 [2008 - \$152,551,339]. The fair value of the Fund's long-term investments is determined by reference to published price quotations in an active market.

## **6. CAPITAL MANAGEMENT**

The Fund includes deferred contributions in the definition of capital. At December 31, 2009, the deferred contribution was \$310,583,252 [2008 - \$303,477,119]. These contributions were primarily invested in long-term investments with the balance being held in cash and cash equivalents to meet short-term operating requirements.

The Fund's objectives when managing capital are to minimize volatility of expected investment results and cash flows in order to earn sufficient returns so that the Fund can fulfill its objectives, maintain sufficient liquidity to meet business requirements as they arise and to preserve capital.

The deferred contribution comprises the initial contribution of \$300 million from the Funder along with any investment income net of any expenses incurred by the Fund. The Indenture of Trust requires that any income, gains and accretions, after expenses, shall be added to this initial contribution and be devoted exclusively to the objectives of the Fund. The Indenture of Trust also requires that the Fund's contingent and actual obligations under the credit enhancement facility not exceed the net worth of the Fund; with the Fund defining net worth as the difference between what the Fund owns and what it owes. The Fund is in compliance with these conditions as set out in the Indenture.

The Fund's objectives for managing capital for the year ended December 31, 2009 have been met.

No changes were made in the objectives, policies or processes that were applicable for the year ended December 31, 2009 and the nine-month period ended December 31, 2008.

## 7. CAPITAL ASSETS

	2009		2008	
	Cost \$	Accumulated depreciation \$	Cost \$	Accumulated depreciation \$
Furniture and equipment	130,651	34,671	129,444	12,944
Leasehold improvements	245,494	69,556	244,292	20,358
	<b>376,145</b>	<b>104,227</b>	<b>373,736</b>	<b>33,302</b>
Accumulated depreciation	104,227		33,302	
<b>Net book value</b>	<b>271,918</b>		<b>340,434</b>	

Depreciation expense is \$70,925 [2008 - \$33,302] and is included in administration expenses in the statement of operations.

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following table presents the composition of accounts payable and accrued liabilities.

	2009 \$	2008 \$
CMHC	333,513	1,744,069
Other accounts payable and accrued liabilities	92,562	53,899
	<b>426,075</b>	<b>1,797,968</b>

## 9. CREDIT ENHANCEMENT FACILITY

As at December 31, 2009 and 2008, no guarantees have been provided under the Credit Enhancement Facility and as such no liability exists.

## 10. CAPACITY DEVELOPMENT

The maximum amount available for capacity development in any given year shall not exceed 50% of the preceding period's net income. For purposes of determining the amount of capacity development available, the Fund defines net income as investment and other income less any expenses incurred during the period.

Changes in funds available for capacity development are as follows:

	2009	2008
	\$	\$
Balance, beginning of period	1,738,560	—
<i>Add:</i>		
Allocations during the period [50% of net income]	3,553,067	1,738,560
	5,291,627	1,738,560
<i>Less:</i>		
Funds spent towards capacity development	2,500	—
<b>Balance, end of period</b>	<b>5,289,127</b>	<b>1,738,560</b>

For 2010, the Fund has \$5,289,127 [2008 - \$1,738,560] available for capacity development. Any unexpended amounts at the end of 2010 may be carried forward to be spent in subsequent years.

## 11. NET CHANGES IN OPERATING WORKING CAPITAL BALANCES

	2009	2008
	\$	\$
Increase in accrued interest receivable	(701,995)	(1,137,208)
Decrease (increase) in accounts receivable	99,094	(99,094)
Increase (decrease) in accounts payable and accrued liabilities	(1,371,893)	1,797,968
Decrease (increase) in capital assets included in accounts payable	372,537	(372,537)
Increase in deferred lease inducement	—	99,094
	(1,602,257)	288,223



## 12. COMMITMENTS AND CONTINGENT LIABILITIES

The Fund leases office premises and certain computer equipment under long-term operating leases expiring up to July 31, 2013. Future minimum annual lease payments over the next four years are as follows:

	\$
2010	95,774
2011	79,968
2012	76,444
2013	44,592
<b>Total</b>	<b>296,778</b>

In addition, on April 28, 2008 the Fund has entered into a five year Management Agreement with CMHC which requires the Fund to reimburse the Manager for all reasonable actual direct, indirect and overhead costs it incurs. These costs include salary and fringe benefit costs of certain employees of the Fund, investment manager fees, human resource administration fees, information technology fees, lease costs for computer equipment and other related out of pocket costs incurred by CMHC on behalf of the Fund.

## 13. RELATED PARTY TRANSACTIONS

The Fund is related to the Government of Canada through the Funding Agreement which provided the \$300 million contribution by CMHC in 2008 as agent of and on behalf of the Government of Canada. The Fund is consolidated annually with the financial results of the Government of Canada in the Public Accounts.

The Fund is related to the CMHC Minister through the Management Agreement which was required to be approved by the CMHC Minister pursuant to Section 16.1 of the Indenture of Trust.

The Fund is also related to CMHC through the Funding and Management Agreements. All payments to CMHC are made in the normal course of business, measured at the exchange amount and are made in accordance with the terms of the Funding and Management Agreements.

In 2009, the Fund paid CMHC \$936,552 [2008 - \$391,890] in various management fees and reimbursed it \$37,998 [2008 - \$110,515] in out of pocket costs. At December 31, 2009, the Fund owed CMHC \$333,513 [2008 - \$1,744,069]. The Fund also repaid \$1,360,781 in start-up costs related to 2008 and 2009 but not owed until December 31, 2009 in accordance with the Funding Agreement.

## **14. MARKET, INTEREST RATE, CREDIT AND LIQUIDITY RISK**

### **Market risk**

Market risk is the risk of adverse financial impact arising from changes in underlying market factors, including interest rate risk and credit risk.

### **Interest rate risk**

Interest rate risk relates to the impact of interest rate changes on the Fund's cash flow and financial position. The risk arises from differences in the timing and amount of cash flows related to the Fund's financial assets and liabilities.

The Fund's interest rate risk is managed through the implementation of policies that limit risk for the Fund's investment activities.

The Fund's investments are managed taking the liability and risk profile, by a held-to-maturity approach, a laddered fixed income approach with established portfolio duration limits, and by a diversification strategy.

### **Credit risk**

Credit risk is the risk of loss arising from a counterparty's inability to fulfill its contractual obligations. Credit risk includes the risk of default, and encompasses both the probability of loss and the probable size of the loss, net of recoveries and collateral, over time.

The Fund's maximum exposure to credit risk is the fair value of its investments and various amounts receivable. It is management's opinion that the Fund is not exposed to significant credit risks arising from these financial instruments. The Fund's credit risk associated with investments is managed through the implementation of policies, which includes limits to the permitted investments and minimum credit ratings. These credit ratings include a minimum

rating of R 1 [mid] or higher for investments of less than one year, and a minimum of two ratings of AA- or higher for the investments greater than one year. At December 31, 2009, all investments held by the Fund were issued by either the Government of Canada, a Province, or an international development agency.

### **Liquidity risk**

Liquidity risk is the risk that the Fund would have insufficient cash flows to meet its obligation associated with financial liabilities.

The Fund has a cash flow planning process in place to ensure sufficient resources meet current and projected cash requirements. Liquidity sources include cash, interest income, and the maturity of fixed income investments.

## *Fund Staff*

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Strategic planning session of the First Nation Market Housing Fund Trustees and Staff

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## *Glossary*

### **Lease Inducement**

The negotiation of lease agreements sometime includes incentives, or inducements, offered by the landlord which encourages the party leasing the property (lessee) to sign the lease. These incentives may include an up-front cash payment to the lessee, a rent free period or a contribution to certain lessee costs such as leasehold improvements/office fit up costs.

### **Held-to-maturity Investments**

Held-to-maturity investments are financial assets with fixed or determinable payments and a fixed maturity date that management has the positive intention and ability to hold to maturity.

### **Settlement date accounting**

Settlement date accounting refers to an accounting method whereby an asset, such as an investment, is recognized by an entity in its accounting records on the day it is received by the entity. This occurs when a given transaction has been fulfilled, which is when performance by both parties has been satisfied.

### **Effective interest rate method**

A method for systematically moving bond discounts or premiums from the statement of financial position to interest income over the life of the investment.

### **Deferral method**

Under the deferral method of accounting for contributions, restricted contributions related to expenses of future periods are deferred and recognized as revenue in the period in which the related expenses are incurred.

### **Fair Value**

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties under normal conditions.







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