

**NEWFOUNDLAND AND LABRADOR
MUNICIPAL FINANCING
CORPORATION**

FINANCIAL STATEMENTS

MARCH 31, 2020

Management's Report

Management's Responsibility for the Newfoundland and Labrador Municipal Financing Corporation Financial Statements

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the financial statements, 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 transactions are properly authorized, assets are safeguarded and liabilities are recognized.

Management is also responsible for ensuring that transactions comply with relevant policies and authorities and are properly recorded to produce timely and reliable financial information.

The Board is responsible for ensuring that management fulfils its responsibility for financial reporting and internal controls and exercises these responsibilities through the Board. The Board reviews internal financial information periodically and external audited financial statements yearly.

The Auditor General conducts an independent audit of the annual financial statements of the Corporation, in accordance with Canadian generally accepted auditing standards, in order to express an opinion thereon. The Auditor General has full and free access to financial management of the Newfoundland and Labrador Municipal Financing Corporation.

On behalf of the Newfoundland and Labrador Municipal Financing Corporation.



Thomas Nemec
Manager of Capital Markets
& Financial Assistance



Julianne Pack
Manager of Financial Operations



OFFICE OF THE AUDITOR GENERAL
NEWFOUNDLAND AND LABRADOR

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Newfoundland and Labrador
Municipal Financing Corporation
St. John's, Newfoundland and Labrador

Opinion

I have audited the financial statements of the Newfoundland and Labrador Municipal Financing Corporation (the Corporation), which comprise the statement of financial position as at March 31, 2020, and the statements of operations, change in net financial assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Corporation in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and my auditor's report thereon. The annual report is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I will not express any form of assurance conclusion thereon.

Independent Auditor's Report (cont.)

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. When I read the annual report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the Corporation'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 the Corporation's or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 auditor's report that includes my 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 these financial statements.

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

Independent Auditor's Report (cont.)

- 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 the Corporation'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 the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. I draw attention to note 11 of the financial statements which outlines the planned wind down of the Corporation's operations.
- 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.

I 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 I identify during my audit.



SANDRA RUSSELL, CPA, CA
Auditor General

July 24, 2020
St. John's, Newfoundland and Labrador

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
STATEMENT OF FINANCIAL POSITION

As at March 31

2020

2019

FINANCIAL ASSETS

Cash	\$ 4,992,550	\$ 196,672
Portfolio investments (Note 3)	-	4,261,472
Accounts receivable	1,550,664	1,585,218
Accrued interest receivable	-	331
Loans receivable (Note 4)	-	1,892,364
	6,543,214	7,936,057

LIABILITIES

Accounts payable and accrued liabilities	13,529	1,691
Accrued interest payable	-	399
Debenture debt (Note 5)	-	1,400,000
Reserve fund (Note 6)	3,859,002	3,859,002
	3,872,531	5,261,092

Net financial assets **2,670,683** **2,674,965**

Accumulated surplus **\$ 2,670,683** **\$ 2,674,965**

The accompanying notes are an integral part of these financial statements.

Signed on behalf of the Board of Directors:

Chairperson

Director

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
STATEMENT OF OPERATIONS
For the Year Ended March 31

	2020 Budget	2020 Actual	2019 Actual
(Note 9)			
REVENUES			
Interest on loans to municipal corporations	\$ 91,000	\$ 90,621	\$ 262,562
Interest on portfolio investments	101,000	37,852	78,651
	192,000	128,473	341,213
EXPENSES			
Administrative and miscellaneous	66,000	60,744	71,872
Amortization of deferred charges:			
Issue expenses on debenture debt	-	-	697
Premiums and discounts on debenture debt	-	-	336
Interest on long-term debt	72,000	72,011	207,812
	138,000	132,755	280,717
Annual surplus (deficit)	54,000	(4,282)	60,496
Accumulated surplus, beginning of year	2,674,965	2,674,965	2,614,469
Accumulated surplus, end of year	\$ 2,728,965	\$ 2,670,683	\$ 2,674,965

The accompanying notes are an
integral part of these financial statements.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

For the Year Ended March 31

	2020 Budget	2020 Actual	2019 Actual
	(Note 9)		
Annual surplus (deficit)	\$ 54,000	\$ (4,282)	\$ 60,496
<u>Use of deferred charges</u>	-	-	1,033
Increase (decrease) in net financial assets	54,000	(4,282)	61,529
<u>Net financial assets, beginning of year</u>	<u>2,674,965</u>	<u>2,674,965</u>	<u>2,613,436</u>
<u>Net financial assets, end of year</u>	<u>\$ 2,728,965</u>	<u>\$ 2,670,683</u>	<u>\$ 2,674,965</u>

The accompanying notes are an
integral part of these financial statements.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended March 31

2020

2019

Operating transactions

Annual surplus (deficit)	\$ (4,282)	\$ 60,496
Adjustment for non-cash items		
Amortization of issue expenses on debenture debt	-	697
Amortization of premiums and discounts on debenture debt	-	336
	(4,282)	61,529
<u>Changes in non-cash working capital</u>	<u>46,324</u>	<u>82,666</u>
Cash provided from operating transactions	42,042	144,195

Investing transactions

Portfolio investments	4,261,472	(591,886)
Loan payments received from municipal corporations	1,892,364	3,114,907
Cash provided from investing transactions	6,153,836	2,523,021

Financing transactions

Retirement of debenture debt	(1,400,000)	(2,666,000)
Cash applied to financing transactions	(1,400,000)	(2,666,000)
Increase in cash	4,795,878	1,216
Cash, beginning of year	196,672	195,456
Cash, end of year	\$ 4,992,550	\$ 196,672

The accompanying notes are an integral part of these financial statements.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2020

1. Nature of operations

The Newfoundland and Labrador Municipal Financing Corporation (the Corporation) is established under the Municipal Financing Corporation Act. The Corporation was created to provide long-term financing for the capital requirements of municipal corporations by the issuance of its securities, and relending the funds to municipal corporations. As described in note 11, the Corporation is undergoing a planned wind down of its operations. The Corporation's affairs are managed by a Board of Directors appointed by the Lieutenant-Governor in Council. All board members are full-time employees of the Province of Newfoundland and Labrador (the Province).

The Corporation is a Crown entity of the Province and as such is not subject to Provincial or Federal income taxes.

2. Summary of significant accounting policies

(a) Basis of accounting

The Corporation is classified as an Other Government Organization as defined by Canadian Public Sector Accounting Standards (CPSAS). These financial statements are prepared by management in accordance with CPSAS for provincial reporting entities established by the Canadian Public Sector Accounting Board (PSAB). The Corporation does not prepare a statement of remeasurement gains and losses as the Corporation does not enter into relevant transactions or circumstances that are being addressed by this statement. Outlined below are the significant accounting policies followed.

(b) Financial instruments

The Corporation's financial instruments recognized on the statement of financial position consist of cash, portfolio investments, accounts receivable, accrued interest receivable, loans receivable, accounts payable and accrued liabilities, accrued interest payable and debenture debt. The Corporation generally recognizes a financial instrument when it enters into a contract which creates a financial asset or financial liability. Financial assets and financial liabilities are initially measured at cost, which is the fair value at the time of acquisition.

The Corporation subsequently measures all of its financial assets and financial liabilities at cost or amortized cost. Financial assets measured at cost include cash, accounts receivable, accrued interest receivable, and loans receivable. Portfolio investments are measured at amortized cost as disclosed in note 3. Financial liabilities measured at cost include accounts payable and accrued liabilities and accrued interest payable. Debenture debt is measured at amortized cost as disclosed in note 5.

2. Summary of significant accounting policies (cont.)

(b) Financial instruments (cont.)

The carrying values of cash, portfolio investments, accounts receivable, accrued interest receivable, accounts payable and accrued liabilities and accrued interest payable approximate current fair value due to their nature and/or the short-term maturity associated with these instruments. The carrying value of loans receivable and debenture debt is considered to approximate market value.

Interest attributable to financial instruments is reported in the statement of operations.

(c) Cash

Cash includes cash in bank.

(d) Premiums, discounts and issue expenses on debenture debt

Premiums, discounts and issue expenses are deferred and amortized on a straight-line basis over the life of the debenture issue to which they relate. In the case of the early retirement of debenture debt, a proportionate amount of the deferred balance is included with the gain or loss in the determination of net income for the period.

(e) Portfolio investments

Portfolio investments include short-term portfolio investments at amortized cost.

(f) Loans receivable

The Corporation records loans receivable at cost. Options exist for the recovery from the Province of any defaults by municipal corporations and as such no allowance for doubtful accounts has been provided. Interest is accrued on loans receivable to the extent it is deemed collectible.

(g) Accounts receivable

Accounts receivable consists of arrears (principal and interest) on loans receivable along with interest charged on the arrears. The Corporation ceased charging interest on arrears in November 2009.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2020

2. Summary of significant accounting policies (cont.)

(h) Revenues

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

Interest income is accounted for using the effective interest method for interest on portfolio investments and interest on loans receivable. Recognition of interest is in accordance with the terms of the original loan agreement.

(i) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is recorded as an expense in that year.

The Corporation is administered by the Department of Finance. Expenses related to salaries are paid directly by the Department and reimbursed by the Corporation and reflected in these financial statements.

3. Portfolio investments

Portfolio investments consisted of a short-term investment purchased on March 29, 2019 at a cost of \$4,261,472, which matured on September 16, 2019. The maturity value of this portfolio investment was \$4,300,000. The portfolio investments are valued as follows:

	2020	2019
Short-term investments	\$ -	\$ 4,261,472

4. Loans receivable

As at March 31, 2020, loans receivable from municipal corporations were \$0 (2019 - \$1,892,364) with an interest rate of 6.375%.

Loans to municipal corporations are made on the security of their debentures. Options exist for the recovery from the Province of any defaults by municipal corporations. Therefore, no allowance for doubtful accounts has been provided.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
NOTES TO FINANCIAL STATEMENTS
March 31, 2020

5. Debenture debt

The Corporation's debenture debt is unconditionally and fully guaranteed as to principal and interest by the Province. Details of debt outstanding are as follows:

<u>Series</u>	<u>Remaining Term</u>	<u>Interest Rate</u> %	<u>March 31 2020</u>	<u>March 31 2019</u>
MFC-48	Mar 29, 2019-20	5.200	-	1,400,000 (a)
Total			<u>\$ -</u>	<u>\$ 1,400,000</u>

(a) MFC-48: On March 29, 2020, the Corporation redeemed \$1,400,000.

6. Reserve fund

The Province has historically funded a reserve fund established to mitigate arrears with respect to municipal loans. The reserve fund is allocated as the Department of Municipal Affairs and Environment concludes negotiations with various municipal corporations with respect to restructuring debt due to the Corporation.

The year end reserve fund balance is as follows:

	<u>2020</u>	<u>2019</u>
Reserve fund, beginning of year	\$ 3,859,002	\$ 3,859,002
Less: funds allocated during year	-	-
Reserve fund, end of year	<u>\$ 3,859,002</u>	<u>\$ 3,859,002</u>

7. Financial risk management

The Corporation recognizes the importance of managing risks and this includes policies, procedures and oversight designed to reduce risks identified to an appropriate threshold. The risks that the Corporation is exposed to through its financial instruments are credit risk, liquidity risk and market risk. There was no significant change in the Corporation's exposure to these risks or its processes for managing these risks from the prior year.

7. Financial risk management (cont.)

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Corporation's main credit risk relates to cash, portfolio investments, accounts receivable, accrued interest receivable and loans receivable. The Corporation's maximum exposure to credit risk is the carrying amounts of these financial instruments. The Corporation is not exposed to significant credit risk with its cash because this financial instrument is held with a Chartered Bank. The Corporation is not exposed to significant credit risk with portfolio investments or accrued interest receivable because of their nature.

The Corporation is also not exposed to significant credit risk with accounts receivable (arrears on loans receivable) and loans receivable since options exist for the recovery from the Province of any defaults by municipal corporations due to the Reserve Fund provided by the Department of Municipal Affairs and Environment.

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its contractual obligations and financial liabilities. The Corporation's exposure to liquidity risk relates mainly to its accounts payable and accrued liabilities, accrued interest payable and debenture debt. The Corporation manages liquidity risk by monitoring its cash flows and ensuring that it has sufficient resources available to meet its financial liabilities. The Corporation's debenture debt is long-term with fixed repayment terms as outlined in note 5. In addition, the Corporation has access to an operating credit facility which allows draw downs to a maximum of \$3,000,000. As at March 31, 2020, the Corporation had drawn down \$0 on its operating credit facility.

Market risk

Market risk is the risk that the fair value or expected future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency (foreign exchange) risk, interest rate risk and other price risk. The Corporation is not exposed to significant foreign exchange or other price risk. In addition, the Corporation is not exposed to significant interest rate risk as its portfolio investments, loans receivable and debenture debt are at fixed interest rates.

8. Related party transactions

The Corporation is administered by employees of the Department of Finance. The salary costs of \$50,170 (2019 - \$61,037) for these employees are paid by the Department of Finance, reimbursed by the Corporation, and are reflected in these financial statements.

9. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Director of Pensions and Debt Management.

10. Non-financial assets

The recognition and measurement of non-financial assets is based on their service potential. These assets will not provide resources to discharge liabilities of the Corporation. For non-financial assets, the future economic benefit consists of their capacity to render service to further the Corporation's objectives.

11. Planned wind down of operations

In 2005-06, the Province of Newfoundland and Labrador decided to no longer refinance its portion of completed municipal capital projects through the Corporation as most municipalities finance their share independently through financial institutions. As a result, the Corporation will be winding up its operations after collecting its outstanding receivables.