

**NEWFOUNDLAND AND LABRADOR  
MUNICIPAL FINANCING  
CORPORATION**

**FINANCIAL STATEMENTS**

**MARCH 31, 2019**

## 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.



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Denise Hanrahan, CPA, MBA, ICD.D  
Deputy Minister of Finance



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Janice Butt, CPA, CMA  
Director, Pensions and Debt Management



**AUDITOR  
GENERAL**  
of Newfoundland and Labrador

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**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, 2019, 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, 2019, and the results of its operations, changes in its net financial assets, 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.

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.

## **Independent Auditor's Report (cont.)**

### *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.
- 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.

### **Independent Auditor's Report (cont.)**

- 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 13 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.



**JULIA MULLALEY, CPA, CA**  
**Auditor General**

August 14, 2019  
St. John's, Newfoundland and Labrador

**NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
As at March 31

2019

2018

**FINANCIAL ASSETS**

Cash	\$ 196,672	\$ 195,456
Portfolio investments (Note 4)	4,261,472	3,669,586
Accounts receivable	1,585,218	1,666,613
Accrued interest receivable	331	8,117
Loans receivable (Note 5)	1,892,364	5,007,271
	<b>7,936,057</b>	<b>10,547,043</b>

**LIABILITIES**

Accounts payable and accrued liabilities	1,691	5,286
Accrued interest payable	399	3,319
Debenture debt (Note 6)	1,400,000	4,066,000
Reserve fund (Note 7)	3,859,002	3,859,002
	<b>5,261,092</b>	<b>7,933,607</b>

<b>Net financial assets</b>	<b>2,674,965</b>	<b>2,613,436</b>
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**NON-FINANCIAL ASSETS**

Deferred charges (Note 8)	-	1,033
<b>Accumulated surplus</b>	<b>\$ 2,674,965</b>	<b>\$ 2,614,469</b>

*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

	2019 Budget	2019 Actual	2018 Actual
	(Note 11)		
<b>REVENUES</b>			
Interest on loans to municipal corporations	\$ 263,000	\$ 262,562	\$ 535,643
Interest on portfolio investments	82,000	78,651	30,382
	<b>345,000</b>	<b>341,213</b>	<b>566,025</b>
<b>EXPENSES</b>			
Administrative and miscellaneous	74,000	71,872	73,201
Amortization of deferred charges:			
Issue expenses on debenture debt	1,000	697	2,356
Premiums and discounts on debenture debt	-	336	1,072
Interest on long-term debt	208,000	207,812	344,439
	<b>283,000</b>	<b>280,717</b>	<b>421,068</b>
<b>Annual surplus</b>	<b>62,000</b>	<b>60,496</b>	<b>144,957</b>
<b>Accumulated surplus, beginning of year</b>	<b>2,614,469</b>	<b>2,614,469</b>	<b>2,469,512</b>
<b>Accumulated surplus, end of year</b>	<b>\$ 2,676,469</b>	<b>\$ 2,674,965</b>	<b>\$ 2,614,469</b>

*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**

	2019 Budget	2019 Actual	2018 Actual
(Note 11)			
Annual surplus	\$ 62,000	\$ 60,496	\$ 144,957
Use of deferred charges	-	1,033	3,428
<b>Increase in net financial assets</b>	<b>62,000</b>	<b>61,529</b>	148,385
<b>Net financial assets, beginning of year</b>	<b>2,613,436</b>	<b>2,613,436</b>	2,465,051
<b>Net financial assets, end of year</b>	<b>\$ 2,675,436</b>	<b>\$ 2,674,965</b>	\$ 2,613,436

*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

2019

2018

**Operating transactions**

Annual surplus	\$ 60,496	\$ 144,957
Adjustment for non-cash items		
Amortization of issue expenses on debenture debt	697	2,356
Amortization of premiums and discounts on debenture debt	336	1,072
	61,529	148,385
<u>Changes in non-cash working capital</u>	<u>82,666</u>	<u>732,533</u>
<b>Cash provided from operating transactions</b>	<b>144,195</b>	<b>880,918</b>
<b>Investing transactions</b>		
Portfolio investments	(591,886)	(2,472,094)
<u>Loan payments received from municipal corporations</u>	<u>3,114,907</u>	<u>4,620,220</u>
<b>Cash provided from investing transactions</b>	<b>2,523,021</b>	<b>2,148,126</b>
<b>Financing transactions</b>		
Retirement of debenture debt	(2,666,000)	(2,666,000)
<u>Reserve fund allocations made</u>	<u>-</u>	<u>(274,853)</u>
<b>Cash applied to financing transactions</b>	<b>(2,666,000)</b>	<b>(2,940,853)</b>
<b>Increase in cash</b>	<b>1,216</b>	<b>88,191</b>
<b>Cash, beginning of year</b>	<b>195,456</b>	<b>107,265</b>
<b>Cash, end of year</b>	<b>\$ 196,672</b>	<b>\$ 195,456</b>

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

**NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
March 31, 2019

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**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 13, 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 4. 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 6.

**NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
March 31, 2019

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**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, 2019

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**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. Change in accounting policy**

On April 1, 2018, the entity adopted *PS 3430 Restructuring Transactions*. This is a new standard on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities. This accounting change had no impact on the financial statements.

**4. Portfolio investments**

Portfolio investments consist of a short-term investment purchased on March 14, 2019 at a cost of \$4,261,472 maturing on September 16, 2019. The maturity value of this portfolio investment is \$4,300,000. The portfolio investments are valued as follows:

	2019	2018
Short-term investments	\$ 4,261,472	\$ 3,669,586

**NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2019**

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**5. Loans receivable**

As at March 31, 2019, loans receivable from municipal corporations were \$1,892,364 (2018 - \$5,007,271) 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.

Principal payments receivable are as follows:

<u>Year</u>	<u>Amount</u>
2020	<u>\$ 1,892,364</u>

**6. 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 2019</u>	<u>March 31 2018</u>
MFC-47	Mar 17, 2018-19	-	\$ -	\$ 1,266,000
MFC-48	Mar 29, 2019-20	5.200	<b>1,400,000</b>	2,800,000 (a)
<b>Total</b>			<b>\$ 1,400,000</b>	<b>\$ 4,066,000</b>

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

Estimated debenture maturities are as follows:

<u>Year Ending March 31</u>	<u>Debenture Maturities</u>
2020	<u>\$ 1,400,000</u>

**NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2019**

**7. 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:

	2019	2018
Reserve fund, beginning of year	\$ 3,859,002	\$ 4,133,855
Less: funds allocated during year	-	274,853
Reserve fund, end of year	\$ 3,859,002	\$ 3,859,002

**8. Deferred charges**

	2019	2018
Issues expenses on debenture debt	\$ -	\$ 697
Premiums and discounts on debenture debt	-	336
	\$ -	\$ 1,033

**9. 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.

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.

**NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2019**

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**9. Financial risk management (cont.)**

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 6. 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, 2019, 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.

**10. Related party transactions**

The Corporation is administered by employees of the Department of Finance. The salary costs of \$61,037 (2018 - \$56,092) for these employees are paid by the Department of Finance, reimbursed by the Corporation, and are reflected in these financial statements.

**11. 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.

**NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**March 31, 2019**

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**12. 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.

**13. 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 at the end of the 2019-2020 fiscal year after collecting its loans receivable and repaying its debenture debt.

**14. Comparative figures**

Certain comparative figures have been reclassified to conform to current year's presentation.