
**MUNICIPAL FINANCING
CORPORATION OF
SASKATCHEWAN**

2018 ANNUAL REPORT



LETTER OF TRANSMITTAL

Regina, Saskatchewan
March 4, 2019

To His Honour
The Honourable Tom Molloy
Lieutenant Governor of the Province of Saskatchewan

Sir:

I have the honour to submit herewith the Annual Report of the Municipal Financing Corporation of Saskatchewan for the year ended December 31, 2018, in accordance with **The Municipal Financing Corporation Act**. The financial statements included in this Annual Report are in the form approved by the Treasury Board and have been reported on by the Corporation's auditors.

I have the honour to be, Sir,

Your obedient servant,

A handwritten signature in cursive script that reads "Donna Harpauer".

Donna Harpauer
Minister of Finance
And Minister Responsible
Municipal Financing Corporation of Saskatchewan

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

BOARD OF DIRECTORS

Honourable Donna Harpauer
Chairperson

Honourable Warren Kaeding

OFFICERS

Denise Macza
General Manager

Jim Fallows
Treasurer

CONTACT INFORMATION

Address:	6 th Floor, 2350 Albert Street REGINA SK S4P 4A6
Phone Number:	(306) 787-8150
Fax Number:	(306) 787-8493
Website:	www.gov.sk.ca/mfc/
Email Address:	mfc@finance.gov.sk.ca

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

HISTORY AND CURRENT HIGHLIGHTS – 2018

The Municipal Financing Corporation of Saskatchewan (the Corporation) was established to assist in making capital funds available for the financing of school, hospital and other essential construction and local improvement projects in cities, towns, villages and rural areas throughout the Province. The Corporation may borrow directly from private lending institutions or through the Ministry of Finance. The Corporation uses the funds borrowed to purchase a portion of the approved debentures sold each year by Saskatchewan local governments.

The Corporation participated in the financing of 16 projects by purchasing \$15.3 million of debentures. Most of the financing involved sewer and water projects, land and building acquisitions and projects involving the construction and maintenance of roads.

The Corporation's debenture holdings at December 31, 2018 totaled \$208.6 million, down \$0.8 million from the total at December 31, 2017.

The Corporation recorded comprehensive income of \$0.74 million in 2018, which is slightly less than the \$0.76 million recorded in 2017 and the \$0.80 million amount budgeted (see note 10 to the financial statements). The variances relative to 2017 are primarily due to lower than expected income on debt retirement funds.

For 2019, the Corporation expects results to be very similar to 2018.

The Municipal Financing Corporation of Saskatchewan is administered by a Board of Directors through the use of staff and facilities provided by the Ministry of Finance. The Corporation incurred \$50,000 of administrative expenses in 2018. These expenses were primarily for the reimbursement of the costs to the Ministry of Finance of providing administrative services. The Directors of the Municipal Financing Corporation of Saskatchewan do not receive fees and, with the exception of interest paid on borrowed funds, the Corporation had no other expenses in the current year.

A table of lending activity for the current and previous year is presented on page 4.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

COMPARATIVE TABLE OF LENDING ACTIVITY

For the Year Ended December 31

	<u>2018</u>	<u>2017</u>
	(thousands of Canadian dollars)	
Amount of debentures offered to the Corporation	\$ 10,190	\$ 16,630
Prior year's purchase commitments carried forward	<u>5,768</u>	<u>-</u>
Total purchase commitments for the year	\$ 15,985	\$ 16,630
Purchases completed	<u>15,258</u>	<u>10,862</u>
Purchase commitments outstanding at the year end	<u>\$ 700</u>	<u>\$ 5,768</u>

DEBENTURES PURCHASED IN 2018

(thousands of Canadian dollars)

RM of Canwood No. 494	\$ 2,000
RM of Edenvold No. 158	3,800
RM of Sutton No. 133	250
Town of Eston	375
Town of Eston	325
Town of Fort Qu'Appelle	560
Town of Fort Qu'Appelle	425
Town of Lanigan	1,380
Town of Macklin	2,250
Town of Midale	600
Town of Watrous	845
Town of Watson	435
Village of Clavet	470
Village of Lipton	218
Village of Paradise Hill	1,200
Village of Wapella	125
	<u>\$ 15,258</u>

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management has prepared the financial statements of the Municipal Financing Corporation of Saskatchewan in accordance with International Financial Reporting Standards on a basis consistent with that of the previous year. Management is responsible for the reliability and integrity of the financial statements and all other information contained in this Annual Report.

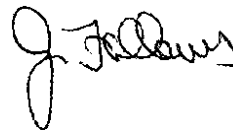
Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, management maintains appropriate systems of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

Dudley & Company LLP Chartered Professional Accountants, the Corporation's external auditors, have reviewed the systems of internal control and audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express their opinion on the financial statements. Their report appears on the following page.

The financial statements have been examined and approved by the Board of Directors.



Denise Macza, CPA, CMA, CFA, ICD.D
General Manager



Jim Fallows
Treasurer

March 4, 2019

INDEPENDENT AUDITOR'S REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

Opinion

We have audited the financial statements of the MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN (the Corporation), which comprise the statement of financial position as at December 31, 2018, and the statements of comprehensive income, changes in equity, and cash flows for the year ended December 31, 2018 and notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2018 and the results of its financial performance and its cash flows for the year ended December 31, 2018 in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the 2018 Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or any knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

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 International Financial Reporting 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 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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 of the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent underlying transactions and events in a manner that achieves fair presentation.

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

Dudley & Company LLP

Dudley & Company LLP
Chartered Professional Accountants

Regina, Saskatchewan
March 4, 2019

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF FINANCIAL POSITION

As at December 31

	Dec. 31	Dec. 31
	<u>2018</u>	<u>2017</u>

(thousands of Canadian dollars)

ASSETS

Due from General Revenue Fund (Note 3)	\$ 12,579	\$ 16,259
Interest receivable	2,438	2,580
Municipal debentures receivable	0	516
Debt retirement funds (Note 4)	10,666	9,435
Investments in municipal debentures (Note 5)	<u>208,569</u>	<u>209,384</u>
	<u>\$ 234,252</u>	<u>\$ 238,174</u>

LIABILITIES AND PROVINCE'S EQUITY

Interest payable and accrued liabilities	\$ 1,073	\$ 1,153
Debt (Note 6)	<u>217,835</u>	<u>222,417</u>
	218,908	223,570
Province of Saskatchewan's Equity		
Accumulated other comprehensive income (loss)	17	0
Retained earnings	<u>15,327</u>	<u>14,604</u>
	15,344	14,604
	<u>\$ 234,252</u>	<u>\$ 238,174</u>

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended December 31

	<u>2018</u>	<u>2017</u>
	(thousands of Canadian dollars)	
Revenue		
Investment income - municipal debentures	\$ 8,295	\$ 8,333
Gain on early redemption - municipal debentures	0	52
Investment income - debt retirement funds (Note 4)	243	241
Interest income - GRF	134	126
	<u>8,672</u>	<u>8,752</u>
 Expenses		
Interest on debt	7,747	7,940
Administration	50	49
	<u>7,797</u>	<u>7,989</u>
 Net Income	875	763
 Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income:		
Debt instruments designated as FVOCI:		
change in fair value during the period	(135)	-
 Comprehensive Income	<u>\$ 740</u>	<u>\$ 763</u>

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 31

	Retained	Other	Accumulated		Total
	Earnings	Comprehensive	Income (Loss)		Equity
Balance, January 1, 2017	\$ 13,841	\$	0	\$	13,841
Net income	763		0		763
Other comprehensive income	0		0		0
Balance, December 31, 2017	14,604		0		14,604
IFRS 9 opening adjustment:					
Reclassification of market value gains	(152)		152		0
Net income	875		0		875
Other comprehensive loss	0		(135)		(135)
Balance, December 31, 2018	\$ 15,327	\$	17	\$	15,344

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF CASH FLOWS

For the Year Ended December 31

	<u>2018</u>	<u>2017</u>
(thousands of Canadian dollars)		
Operating Activities		
Interest received from municipal debentures	\$ 8,464	\$ 8,549
Interest received from GRF	155	85
Interest paid on debt	(7,856)	(7,991)
Payments to suppliers	<u>(50)</u>	<u>(49)</u>
Cash provided by operating activities	<u>713</u>	<u>594</u>
Investing Activities		
Purchase of municipal debentures	(15,258)	(10,862)
Proceeds from maturing municipal debentures	<u>16,588</u>	<u>13,298</u>
Cash provided by investing activities	<u>1,330</u>	<u>2,436</u>
Financing Activities		
Debt retirement fund redemptions	733	337
Debt retirement fund installments	(1,856)	(1,954)
Repayment of long term debt	<u>(4,600)</u>	<u>(2,800)</u>
Cash used in financing activities	<u>(5,723)</u>	<u>(4,417)</u>
Net decrease in cash equivalents during the year	(3,680)	(1,387)
Cash equivalents, beginning of year	<u>16,259</u>	<u>17,646</u>
Cash equivalents, end of year	<u>\$ 12,579</u>	<u>\$ 16,259</u>

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

1. Status of the Corporation

The Municipal Financing Corporation of Saskatchewan is a Canadian company that was established in 1969 pursuant to the provisions of **The Municipal Financing Corporation Act**. The Corporation's objective is to assist municipalities in financing their capital requirements.

The Corporation is a Crown corporation of the Government of Saskatchewan and is therefore not subject to Federal or Provincial income tax but is subject to Provincial corporation capital tax.

The Corporation is administered by the Ministry of Finance at 2350 Albert Street, Regina, Saskatchewan.

2. Significant Accounting Policies

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations as published in the CPA Canada Handbook – Accounting effective as of December 31, 2018.

These financial statements were authorized for issue by the Board of Directors on March 4, 2019.

Basis of Measurement

These financial statements are presented in Canadian dollars, and have been prepared on a historical cost basis.

Application of New and Revised International Financial Reporting Standards

IFRS 9 Financial Instruments

Effective January 1, 2018, MFC adopted IFRS 9, *Financial Instruments*. As a result of the adoption of IFRS 9, MFC adopted consequential amendments to IFRS 7, *Financial Instruments: Disclosures* that were applied to 2018 disclosures but generally have not been applied to comparative information. The key changes resulting from the adoption of IFRS 9 are summarized below.

(i) Classification of financial assets and financial liabilities

IFRS 9 includes three principal classification categories for financial assets: measured at amortized cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables (L&R) and available for sale. The adoption of IFRS 9 has not had a significant effect on MFC's accounting policies for financial liabilities classified as other liabilities (OL).

The debt retirement funds were classified as fair value through profit or loss under IAS 39. The debt retirement funds are administered and managed by the Government of Saskatchewan Ministry of Finance. The business model objective is to both hold underlying investments in the debt retirement funds to collect contractual cash flows and to sell. The contractual terms of the debt retirement funds give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. As a result, these financial assets have been classified as debt instruments designated as FVOCI under IFRS 9. For further information on how MFC classifies and measures financial assets and accounts for related gains and losses under IFRS 9, refer to Note 8.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Corporation's financial assets and financial liabilities as at January 1, 2018.

<i>(in millions)</i>	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Financial Assets				
Due from General Revenue Fund	L&R	AC	\$ 16,259	\$ 16,259
Interest receivable	L&R	AC	2,580	2,580
Municipal debentures receivable	L&R	AC	516	516
Debt retirement funds	FVTPL	FVOCI	9,435	9,435
Investments in municipal debentures	L&R	AC	209,384	209,384
Total financial assets			\$ 238,174	\$ 238,174
Financial Liabilities				
Interest payable and accrued liabilities	OL	OL	\$ 1,153	\$ 1,153
Debt	OL	OL	222,417	222,417
Total financial liabilities			\$ 223,570	\$ 223,570

Classification details (IAS 39): L&R - loans and receivables, FVTPL - fair value through profit or loss, OL - other liabilities

Classification details (IFRS 9): AC - amortized cost, FVOCI - fair value through other comprehensive income, OL - other liabilities

- (ii) Impairment of Financial Assets
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model applies to the financial assets measured at amortized cost and debt instruments designed as FVOCI. Under IFRS 9, credit losses are recognized earlier than under IAS 39.
- (iii) Transition
Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, however comparative periods have not been restated for retrospective application. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings as at January 1, 2018.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

The following table summarizes the impact of transition to IFRS 9 on retained earnings, accumulated other comprehensive loss and allowance for doubtful accounts at January 1, 2018.

(thousands)

Retained earnings	
Closing balance under IAS 39 as at December 31, 2017	\$ 14,604
Reclassification of market value gains on debt retirement funds under IFRS 9	(152)
Opening balance under IFRS 9 as at January 1, 2018	14,452

Accumulated other comprehensive loss	
Closing balance under IAS 39 as at December 31, 2017	0
Reclassification of market gains on debt retirement funds under IFRS 9	152
Opening balance under IFRS 9 as at January 1, 2018	152

Interest Revenue and Expense

Interest revenue and expense for all investments in municipal debentures and debt is calculated using the effective interest method. This method uses a rate that exactly discounts estimated future cash flows over the expected life of a financial asset or liability to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Corporation estimates future cash flows by considering all contractual terms of the financial instrument other than potential future credit losses.

Financial Instruments

Financial instruments are classified into one of the following categories: fair value through profit or loss, amortized cost, fair value through other comprehensive income and other liabilities.

All financial instruments are measured at fair value on initial recognition. Transaction costs are included in the initial carrying amount of financial instruments, except for financial assets and financial liabilities at fair value through profit or loss, in which case the transaction costs are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument.

i. Fair value through profit or loss

The corporation has no financial assets or liabilities classified at fair value through profit or loss. Financial assets and financial liabilities would be classified as at fair value through profit or loss if they are held for trading or designated as such upon initial recognition.

ii. Fair value through other comprehensive income

Debt retirement funds are classified at fair value through other comprehensive income. Debt retirement funds represent investments that the Corporation intends to hold for the long term for strategic purposes. As permitted by IFRS 9, these investments have been designated at the date of initial application as measured at fair value through other comprehensive income. Under IAS 39, these investments were designated as at fair value through profit of loss because they were managed on a fair value basis and their performance was monitored on this basis.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

iii. Amortized Cost

Due from the General Revenue Fund, interest receivable, municipal debentures receivable and investments in municipal debentures are classified at amortized cost. The amortized cost category consists of financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are accounted for at amortized cost using the effective interest method.

iv. Other Liabilities

Interest payable and accrued liabilities and debt are accounted for at amortized cost using the effective interest method.

New Accounting Standards Not Yet Adopted

The following new standards are not yet effective for the year ended December 31, 2018, and have not been applied in preparing these financial statements:

IFRS 16, Leases

IFRS 16 broadens the definition of a lease and increases transparency regarding a Corporation's leasing obligations. Under the new standard, an asset and liability is recognized on the consolidated statement of financial position for all material contracts that meet the definition of a lease. This standard is effective for annual periods beginning on or after January 1, 2019.

The Corporation expects that IFRS 16 will have no impact on its financial statements.

3. Due from General Revenue Fund

The Corporation's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

The Corporation's earned interest is calculated and paid quarterly by the General Revenue Fund to the Corporation using the General Revenue Fund's thirty day borrowing rate and the Corporation's average daily bank account balance. The General Revenue Fund's average thirty-day borrowing rate for 2018 was 1.40% (2017 – 0.70%).

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

4. Debt Retirement Funds

Under conditions attached to certain advances from the Government of Saskatchewan's General Revenue Fund, the Corporation is required to pay annually into debt retirement funds administered by the Government of Saskatchewan Ministry of Finance, amounts at least equal to 1% of certain debt outstanding. As at December 31, 2018 scheduled debt retirement fund installments for the next five years are as follows:

(in thousands of Canadian dollars)	2019	2020	2021	2022	2023
Debt retirement fund annual contribution	\$ 1,856	\$ 1,856	\$ 1,856	\$ 1,856	\$ 1,696

A reconciliation between the opening and closing debt retirement funds balance is provided below:

(in thousands of Canadian dollars)	Dec. 31 2018	Dec. 31 2017
Debt retirement funds, beginning of year	\$ 9,435	\$ 7,577
Debt retirement fund instalments	1,856	1,954
Debt retirement fund earnings	243	154
	11,534	9,685
Debt retirement fund redemptions	(733)	(337)
Debt retirement fund market value (losses) gains	(135)	87
Debt retirement funds, end of year	\$ 10,666	\$ 9,435

\$0 (2017 - \$733 thousand) of the Corporation's debt retirement funds pertain to debt that matures within twelve months.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

5. Investments in Municipal Debentures

The Corporation invests in fixed rate debentures issued by cities, towns, villages, rural municipalities and school divisions throughout the Province of Saskatchewan. Debentures purchased by the Corporation must be approved by the Saskatchewan Municipal Board, where applicable.

The Corporation has an investment in 186 (December 31, 2017 – 195) debentures issued by 97 (December 31, 2017 – 94) issuers with a weighted average yield of 3.89% (December 31, 2017 – 3.94%) and maturity dates ranging from 2019 through 2045.

The carrying amount invested by issuer category is as follows:

	Dec. 31 2018	Dec. 31 2017	
	(thousands of Canadian dollars)		
Cities	\$ 115,895	\$ 120,981	
Towns	45,183	42,763	
Villages	9,789	9,117	
Rural Municipalities	33,488	31,891	
School Divisions	4,214	4,632	
	\$ 208,569	\$ 209,384	

Investments in municipal debentures maturing in the next five years are as follows:

(in thousands of Canadian dollars)	2019	2020	2021	2022	2023
	\$ 13,889	\$ 13,922	\$ 13,930	\$ 12,700	\$ 12,091

The fair value of these debentures is \$227.9 million (December 31, 2017 - \$235.1 million). This fair value is determined by discounting the debentures' future cash flows using investment rates presently available to the Corporation for investments with similar terms and remaining maturity. Prepayment rates and credit losses are assumed to be zero, based on the past experience of the Corporation. A one per cent change in the investment rates noted above would change the fair value of these debentures by approximately \$18.0 million. The Corporation measures its investments in municipal debentures at amortized cost using the effective interest method, so changes in the fair value of these securities have no immediate effect on net earnings.

The Corporation's policy is to permit borrowers to redeem debentures prior to maturity. The redemption price of debentures is set at the fair market value of the debenture. During 2018, \$0 million of debentures were redeemed prior to maturity (2016 - \$0.5 million).

At December 31, 2018, the Corporation had committed to purchase \$0.7 million (2017 - \$5.8 million) of debentures in 2019.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

6. Debt

	Dec. 31, 2018		Dec. 31, 2017	
	Principal Outstanding	Average Interest Rate	Principal Outstanding	Average Interest Rate
	(thousands of Canadian dollars)			
Amounts due in:				
1-5 years	\$ 48,996	2.52%	\$ 53,596	2.91%
6-10 years	36,530	3.56%	36,530	3.56%
11-15 years	9,800	3.94%	-	-
16-20 years	13,100	3.51%	22,900	3.69%
More than 20 years	110,174	3.80%	110,174	3.80%
	\$ 218,600		223,200	
Less: Unamortized deferred financing charges	(765)		(783)	
Debt	\$ 217,835	3.46%	\$ 222,417	3.53%

The fair value of debt is \$232.7 million (December 31, 2017 - \$245.0 million). This amount is determined by discounting future cash flows using borrowing rates presently available to the Corporation for debt with similar terms and remaining maturity. A one per cent change in the borrowing rates noted above would change the fair value of debt by approximately \$26.2 million. The Corporation measures its debt at amortized cost using the effective interest method, so changes in the fair value of debt have no immediate effect on net earnings.

a) operating line of credit

The Corporation is authorized to borrow up to \$200.0 million on a short term basis from the GRF.

b) principal repayments

Principal repayments for the next five years are as follows:

(in thousands of Canadian dollars)	2019	2020	2021	2022	2023
	\$ 15,000	\$ 0	\$ 0	\$ 15,996	\$ 18,000

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

7. Related Party Transactions

The Corporation is controlled by the Government of Saskatchewan.

These financial statements include the results of transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan. Significant outstanding balances and transactions are as follows:

	<u>2018</u>	<u>2017</u>
	(thousands of Canadian dollars)	
Balances		
Due from General Revenue Fund	\$ 12,579	\$ 16,259
Interest receivable	117	129
Debt retirement funds	10,666	9,435
Investments in municipal debentures	4,214	4,632
Interest payable and accrued liabilities	1,065	1,144
Debt	217,835	222,417
Transactions		
Investment income - municipal debentures	226	247
Investment income - debt retirement funds	243	241
Investment income - GRF	134	126
Interest on debt	7,747	7,940
Administration	40	40

8. Financial Instruments

Management of Financial Risks

The activities of the Corporation result in exposure to three types of risk:

i) Interest Rate Risk

Interest rate risk is risk that the value of the Corporation's assets and liabilities will fluctuate due to changes in market interest rates. This risk exists because the maturity dates of the Corporation's assets and liabilities are not precisely matched:

<u>Year of Maturity</u>	<u>Financial Assets</u>	<u>Financial Liabilities</u>	<u>Difference 2018</u>	<u>Difference 2017</u>
	(thousands of Canadian dollars)			
2018	\$ -	\$ -	\$ -	\$ 12,038
2019	28,906	16,074	12,832	-
2 - 5 years	53,949	33,996	19,953	19,676
Thereafter	151,397	169,604	(18,207)	(17,893)
	<u>\$ 234,252</u>	<u>\$ 219,674</u>	<u>\$ 14,578</u>	<u>\$ 13,821</u>

The Corporation manages this risk by matching the maturity dates of material assets and liabilities to the extent possible.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

ii) Liquidity Risk

Liquidity risk is the risk that financial obligations will not be met over the short-term due to lack of access to capital. This risk is managed by distributing debt maturities over many years, maintaining debt retirement funds on long-term debt issues and maintaining adequate cash reserves and a \$200 million short-term line of credit with the General Revenue Fund.

A maturity analysis of financial liabilities is as follows:

(thousands)	Contractual Maturities				
	Carrying Amount	Less than 1 Year	1-2 years	3-5 Years	More Than 5 Years
Interest payable and accrued liabilities	\$ 1,073	\$ 1,073	\$ 0	\$ 0	\$ 0
Long-term debt	218,600	15,000	0	33,996	169,604
	<u>\$ 219,673</u>	<u>\$ 16,073</u>	<u>\$ 0</u>	<u>\$ 33,996</u>	<u>\$ 169,604</u>

iii) Credit Risk

Credit risk is the risk that the Corporation will not receive payment in full for its investments in municipal debentures or its debt retirement funds.

For municipal debentures, this risk is managed by legislative restrictions on the amounts that can be borrowed by local governments and scrutiny of all proposed transactions. Few of the Corporation's municipal debentures have a credit rating, however all are considered secure. At December 31, 2018, the Corporation had a maximum exposure of \$208.6 million (2017 - \$209.4 million) on its investments in municipal debentures.

For debt retirement funds, this risk is managed by holding a diversified portfolio of investment grade fixed income securities and amounts due from the General Revenue Fund. The investment guidelines applicable to the debt retirement funds prohibit the acquisition of non-investment grade securities. At December 31, 2018, the Corporation had no exposure on its debt retirement funds of \$10.7 million (2017 - \$9.4 million).

The Corporation has never experienced a credit-related loss.

Fair Value Information Regarding Financial Instruments

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The Corporation has classified the fair valuation of its financial instruments as level 1, 2 or 3 as defined below.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

(thousands)	Classification	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS						
Due from General Revenue Fund	AC	n/a	\$ 12,579	\$ 12,579	\$ 16,259	\$ 16,259
Interest receivable	AC	n/a	2,438	2,438	2,580	2,580
Municipal debentures receivable	AC	Level 2	0	0	516	516
Debt retirement funds	FVOCI	Level 2	10,666	10,666	9,435	9,435
Investments in municipal debentures	AC	Level 2	208,569	227,855	209,384	235,100
FINANCIAL LIABILITIES						
Interest payable and accrued liabilities	OL	n/a	1,073	1,073	1,153	1,153
Debt	OL	Level 2	218,600	232,712	223,200	245,000

Classification details: AC - amortized cost, FVOCI - fair value through other comprehensive income, OL - other liabilities

Not Applicable (n/a) financial instruments, including Due from General Revenue Fund, Interest receivable and Interest payable and accrued liabilities, are carried at values which approximate their fair value.

The fair value of debt retirement funds is determined by Saskatchewan's Ministry of Finance using a market approach with information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.

The fair value of investments in municipal debentures and debt are determined for disclosure purposes only using an income approach. Fair values are estimated using the present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

Other Information Regarding Financial Instruments

The effective interest rates on the Corporation's interest bearing financial instruments are as follows:

	Dec. 31 2018	Dec. 31 2017
Investments in municipal debentures	3.89%	3.94%
Interest bearing liabilities	3.46%	3.53%

The Corporation had no impaired financial instruments, so no interest income or losses were incurred from such assets.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

9. Capital Management

The Corporation defines its capital as its reinvested earnings and its long term debt payable.

The Corporation strives to ensure that the interest rate on its investment in municipal debentures exceeds the effective interest rate on its long term debt. The Corporation also attempts to match the payments required to service its long term debt to the cash flows expected from its investments.

The Corporation is not subject to any external or statutory capital requirements.

The points noted above have not changed from the previous fiscal year.

Information on the specific management of financial risks is included in Note 8.

10. Operations Budget

The Corporation's annual budget is approved by its board of directors. For 2018, the approved budget was as follows:

(thousands of Canadian dollars)

Revenue	
Investment income - municipal debentures	\$ 8,475
Investment income - debt retirement funds	225
Investment income - General Revenue Fund	<u>90</u>
	<u>8,790</u>
Expenses	
Interest on debt	7,940
Administration - Ministry of Finance	40
- audit	<u>10</u>
	<u>7,990</u>
Comprehensive income	<u><u>\$ 800</u></u>