
**MUNICIPAL FINANCING
CORPORATION OF
SASKATCHEWAN**

2022 ANNUAL REPORT



LETTER OF TRANSMITTAL

Regina, Saskatchewan
March 27, 2023

To His Honour
The Honourable Russell Mirasty
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, 2022, 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
Deputy Premier and Minister of Finance
And Minister Responsible
Municipal Financing Corporation of Saskatchewan

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

BOARD OF DIRECTORS

Honourable Donna Harpauer
Chairperson

Honourable Don McMorris

OFFICERS

Rod Balkwill
General Manager

Shanna Hoffman
Treasurer

CONTACT INFORMATION

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

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

HISTORY AND CURRENT HIGHLIGHTS – 2022

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 18 projects by purchasing \$53.4 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, 2022 totalled \$287.6 million, up \$34.5 million from the total at December 31, 2021.

The Corporation recorded a comprehensive loss of \$0.91 million in 2022, which is \$1.28 million lower than the comprehensive income of \$0.37 million recorded in 2021 and \$2.32 million lower than the \$1.41 million amount budgeted (see note 10 to the financial statements). The variances relative to 2021 are primarily due to a decrease in the fair market of debt retirement investments as a result of significant increase in market interest rates throughout the year.

For 2023, the Corporation expects improved results relative to 2022 due to the expectation that the decline in debt retirement investments will not recur. The improvement will be partially offset by an anticipated increase in interest expense resulting from elevated interest rates on new 2023 borrowing.

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 around \$50,000 of administrative expenses in 2022. 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>2022</u>	<u>2021</u>
	(thousands of Canadian dollars)	
Amount of debentures offered to the Corporation	\$ 53,145	\$ 22,681
Prior year's purchase commitments carried forward	<u>217</u>	<u>0</u>
Total purchase commitments for the year	\$ 53,362	\$ 22,681
Purchases completed	<u>53,362</u>	<u>22,464</u>
Purchase commitments outstanding at the year end	<u>\$ -</u>	<u>\$ 217</u>

DEBENTURES PURCHASED IN 2022

(thousands of Canadian dollars)

City of Melfort	\$ 4,000
City of Prince Albert	16,000
City of Prince Albert	12,803
City of Prince Albert	3,400
City of Prince Albert	6,260
City of Prince Albert	2,400
RM of Baildon No. 131	777
RM of Britannia No. 502	2,000
RM of Corman Park No 344	1,750
RM of Dundurn No. 314	160
RM of Meota No. 468	945
RM of Saskatchewan Landing No.167	390
Town of Lumsden	1,000
Town of Macklin	350
Town of Mossbank	400
Town of St. Walburg	217
Village of Marcelin	300
Village of Mortlach	210
	<u>\$ 53,362</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.

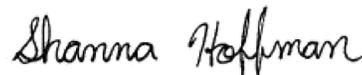
Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, management maintains appropriate systems of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded and that the books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



Rod Balkwill
General Manager



Shanna Hoffman
Treasurer

March 27, 2023

INDEPENDENT AUDITORS' 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, 2022, and the statements of comprehensive income, changes in equity, and cash flows for the year ended December 31, 2022 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, 2022 and the results of its financial performance and its cash flows for the year ended December 31, 2022 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 Auditors' 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 2022 Annual Report, but does not include the financial statements and our auditors' 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.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.* Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause 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 the 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
Chartered Professional Accountants

Regina, Saskatchewan
March 27, 2023

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF FINANCIAL POSITION

As at December 31

2022

2021

(thousands of Canadian dollars)

ASSETS

Due from General Revenue Fund (Note 3)	\$	889	\$	382
Interest receivable		4,077		2,945
Debt retirement funds (Note 4)		16,328		17,791
Investments in municipal debentures (Note 5)		287,561		253,086
		<u>308,855</u>		<u>274,204</u>
	\$	<u>308,855</u>	\$	<u>274,204</u>

LIABILITIES AND PROVINCE'S EQUITY

Interest payable and accrued liabilities	\$	1,321	\$	1,145
Short-term debt (Note 6)		19,965		10,241
Debt (Note 6)		269,507		243,847
		<u>290,793</u>		<u>255,233</u>
Province of Saskatchewan's Equity				
Accumulated other comprehensive (loss) income		(1,393)		317
Retained earnings		19,455		18,654
		<u>18,062</u>		<u>18,971</u>
	\$	<u>308,855</u>	\$	<u>274,204</u>

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended December 31

	<u>2022</u>	<u>2021</u>
	(thousands of Canadian dollars)	
Revenue		
Investment income - municipal debentures	\$ 9,796	\$ 8,643
Gain on early redemption - municipal debentures	-	17
Investment income - debt retirement funds (Note 4)	14	307
Interest income - GRF	15	1
	9,825	8,968
Expenses		
Interest on debt	8,974	7,825
Administration	50	52
	9,024	7,877
Net income	801	1,091
Other comprehensive (loss) income		
Items that may be reclassified subsequently to net income:		
Debt retirement funds designated as FVOCI:		
change in fair value during the period	(1,710)	(721)
Comprehensive (loss) income	\$ (909)	\$ 370

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 31

(thousands of Canadian dollars)

	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance, January 1, 2021	\$ 17,563	\$ 1,038	\$ 18,601
Net income	1,091	0	1,091
Other comprehensive income (loss)	0	(721)	(721)
Balance, December 31, 2021	18,654	317	18,971
Net income	801	0	801
Other comprehensive income (loss)	0	(1,710)	(1,710)
Balance, December 31, 2022	\$ 19,455	\$ (1,393)	\$ 18,062

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF CASH FLOWS

For the Year Ended December 31

	<u>2022</u>	<u>2021</u>
	(thousands of Canadian dollars)	
Operating Activities		
Interest received from municipal debentures	\$ 8,731	\$ 8,717
Interest received from GRF	8	2
Interest paid on debt	(9,151)	(7,992)
Payments to suppliers	(52)	(52)
	(464)	675
Cash (used in) provided by operating activities	(464)	675
Investing Activities		
Purchase of municipal debentures	(53,362)	(22,464)
Proceeds from maturing municipal debentures	17,452	17,433
Proceeds from prepayment of debentures	1,435	382
	(34,475)	(4,649)
Cash (used in) provided by investing activities	(34,475)	(4,649)
Financing Activities		
Debt retirement fund redemptions	1,923	0
Debt retirement fund installments	(2,156)	(2,056)
Issuance of long term debt	41,951	0
Repayment of long term debt	(15,996)	0
Issuance of short term debt	45,635	11,959
Repayment of short term debt	(35,911)	(5,868)
	35,446	4,035
Cash provided by financing activities	35,446	4,035
Net increase in cash equivalents during the year	507	61
Cash equivalents, beginning of year	382	321
Cash equivalents, end of year	\$ 889	\$ 382

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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, 2022.

These financial statements were authorized for issue by the Board of Directors on March 27, 2023.

Basis of Measurement

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

Summary of Significant Accounting Policies

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 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.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

Financial Instruments

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

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.
- iii. Amortized cost
Due from the General Revenue Fund, interest receivable, investments in municipal debentures, interest payable, accrued liabilities and both short and long-term debt 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.

New Accounting Standards Not Yet Adopted

The Corporation has no unadopted accounting standards that would materially affect 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 2022 was 1.86% (2021 – 0.14%).

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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, 2022 scheduled debt retirement fund installments for the next five years are as follows:

(in thousands of Canadian dollars)	2023	2024	2025	2026	2027
Debt retirement fund annual contribution	\$ 2,362	\$ 2,302	\$ 2,152	\$ 2,122	\$ 2,019

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

(in thousands of Canadian dollars)	Dec. 31 2022	Dec. 31 2021
Debt retirement funds, beginning of year	\$ 17,791	\$ 16,149
Debt retirement fund instalments	2,156	2,056
Debt retirement fund earnings	14	307
	19,961	18,512
Debt retirement fund redemptions	(1,923)	0
Debt retirement fund market value gains (losses)	(1,710)	(721)
Debt retirement funds, end of year	\$ 16,328	\$ 17,791

\$0 (2021 - \$1.9 million) of the Corporation's debt retirement funds pertain to debt that matures within twelve months.

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.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

The Corporation has an investment in 191 (December 31, 2021 – 193) debentures issued by 117 (December 31, 2021 – 117) issuers with a weighted average yield of 3.44% (December 31, 2021 – 3.45%) and maturity dates ranging from 2023 through 2057.

The carrying amount invested by issuer category is as follows:

	Dec. 31		Dec. 31
	<u>2022</u>		<u>2021</u>
	(thousands of Canadian dollars)		
Cities	\$ 157,512	\$	117,608
Towns	52,998		56,577
Villages	11,950		12,931
Rural Municipalities	62,784		63,143
School Divisions	2,317		2,827
	<u>\$ 287,561</u>	\$	<u>253,086</u>

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

(in thousands of Canadian dollars)	2023	2024	2025	2026	2027
	\$ 19,777	\$ 19,741	\$ 19,588	\$ 19,882	\$ 16,564

The fair value of these debentures is \$275.5 million (December 31, 2021 - \$283.0 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 \$20.4 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 higher of the fair market value of the debenture and the remaining principal balance owing. During 2022, \$1.436 million of debentures were redeemed prior to maturity (2021 - \$0.365 million).

At December 31, 2022, the Corporation had committed to purchase \$0 (2021 - \$0.217 million) of debentures in the subsequent fiscal year.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

6. Debt

	Dec. 31, 2022		Dec. 31, 2021	
	Principal Outstanding	Average Interest Rate	Principal Outstanding	Average Interest Rate
	(thousands of Canadian dollars)			
Amounts due in:				
1-5 years	\$ 74,530	2.60%	\$ 88,326	2.39%
6-10 years	30,000	2.18%	22,200	3.11%
11-15 years	26,800	3.75%	22,900	3.69%
16-20 years	22,879	3.63%	10,174	2.77%
More than 20 years	120,000	3.72%	100,000	3.90%
	\$ 274,209		\$ 243,600	
Unamortized deferred financing charges	(4,702)		247	
Long-term debt	\$ 269,507	3.24%	\$ 243,847	3.24%

The fair value of long-term debt is \$253.3 million (December 31, 2021 - \$273.4 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 \$24.8 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.

Short-term debt of \$20.0 million (2021 - \$10.2 million) is a line of credit issued from the GRF which carries a rate of 4.43% and matures on March 31, 2023. Book value of short-term debt approximates its fair value.

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)	2023	2024	2025	2026	2027
	\$ 18,000	\$ 21,000	\$ 20,000	\$ 13,330	\$ 2,200

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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>2022</u>		<u>2021</u>
		(thousands of Canadian dollars)		
Balances				
Due from General Revenue Fund	\$	889	\$	382
Interest receivable		65		79
Debt retirement funds		16,328		17,791
Investments in municipal debentures		2,317		2,827
Interest payable and accrued liabilities		1,312		1,133
Short-term debt		19,965		10,241
Long-term debt		269,507		243,847
Transactions				
Investment income - municipal debentures		131		156
Investment income - debt retirement funds		14		439
Investment income - GRF		15		1
Interest on debt		8,974		7,825
Administration		40		40

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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 the 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 2022</u>	<u>Difference 2021</u>
	(thousands of Canadian dollars)			
2023	24,900	39,286	(14,386)	(4,625)
2 - 5 years	79,901	56,530	23,371	9,053
Thereafter	204,054	199,679	4,375	14,790
	<u>\$ 308,855</u>	<u>\$ 295,495</u>	<u>\$ 13,360</u>	<u>\$ 19,218</u>

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

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 of Canadian dollars)	<u>Contractual Maturities</u>				
	<u>Carrying Amount</u>	<u>Less than 1 Year</u>	<u>1-2 years</u>	<u>3-5 Years</u>	<u>More Than 5 Years</u>
Interest payable and accrued liabilities	\$ 1,321	\$ 1,321	\$ 0	\$ 0	\$ 0
Short-term debt	19,965	19,965	0	0	0
Long-term debt	274,209	0	39,000	35,530	199,679
	<u>\$ 295,495</u>	<u>\$ 21,286</u>	<u>\$ 39,000</u>	<u>\$ 35,530</u>	<u>\$ 199,679</u>

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2022

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, 2022, the Corporation had a maximum exposure of \$287.6 million (2021 - \$253.1 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, 2022, the Corporation had no exposure on its debt retirement funds of \$16.3 million (2021 - \$17.8 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, 2022

(thousands of Canadian dollars)	Classification	Fair Value Hierarchy	Dec. 31, 2022		Dec. 31, 2021	
			Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS						
Due from General Revenue Fund	AC	n/a	\$ 889	\$ 889	\$ 382	\$ 382
Interest receivable	AC	n/a	4,077	4,077	2,945	2,945
Debt retirement funds	FVOCI	Level 2	16,328	16,328	17,791	17,791
Investments in municipal debentures	AC	Level 2	287,561	275,457	253,086	282,952
FINANCIAL LIABILITIES						
Interest payable and accrued liabilities	AC	n/a	1,321	1,321	1,145	1,145
Short-term debt	AC	Level 2	19,965	19,965	10,241	10,241
Long-term debt	AC	Level 2	269,507	253,381	243,847	273,394

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 <u>2022</u>	Dec. 31 <u>2021</u>
Investments in municipal debentures	3.44%	3.45%
Interest bearing liabilities	3.32%	3.24%

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, 2022

9. Capital Management

The Corporation defines its capital as its reinvested earnings and its short and 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 2022, the approved budget was as follows:

(thousands of Canadian dollars)

Revenue	
Investment income - municipal debentures	\$ 9,435
Investment income - debt retirement funds	350
Investment income - General Revenue Fund	5
	<hr/>
	9,790
Expenses	
Interest on debt	8,330
Administration - Ministry of Finance	40
- audit	10
	<hr/>
	8,380
	<hr/>
Comprehensive income	<u>\$ 1,410</u>