
MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

2013 ANNUAL REPORT



LETTER OF TRANSMITTAL

Regina, Saskatchewan
March 17, 2014

To Her Honour
The Honourable Vaughn Solomon Schofield
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Municipal Financing Corporation of Saskatchewan for the year ended December 31, 2013, 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, Madam,

Your obedient servant,

/s/ Ken Krawetz

Ken Krawetz
Minister of Finance
And Minister Responsible
Municipal Financing Corporation of Saskatchewan

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

BOARD OF DIRECTORS

Honourable Ken Krawetz
Chairperson

Honourable Jim Reiter

OFFICERS

Rae Haverstock
General Manager

Carla Brown
Assistant General Manager

Jim Fallows
Treasurer

Emily Guo
Secretary

CONTACT INFORMATION

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MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

HISTORY AND CURRENT HIGHLIGHTS – 2013

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 21 projects by purchasing \$26.8 million of debentures. Most of the debentures financed sewer and water projects.

The Corporation's debenture holdings at December 31, 2013 totaled \$165.1 million, up \$10.9 million from the total at December 31, 2012.

The Corporation recorded net earnings of \$1.3 million in 2013, which is slightly lower than the surplus recorded in 2012 and the \$1.45 million amount budgeted (see note 11 to the financial statements). The slight decrease in net earnings is attributable to rising interest rates which resulted in a small loss in debt retirement funds.

For 2014, the Corporation expects a slight decline in earnings as a result of an unusually high level of maturities of investments in municipal debentures.

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 \$29,000 of administrative expenses in 2013. These expenses were primarily for audit fees and 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 showing results of operations for 2013, as compared to the previous year, as well as a detailed listing of debentures purchased in the current year is presented on page 4.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

COMPARATIVE TABLE OF OPERATIONS

For the Year Ended December 31

	<u>2013</u>	<u>2012</u>
	(thousands of Canadian dollars)	
Amount of debentures offered to the Corporation	\$ 27,612	\$ 15,654
Prior year's purchase commitments carried forward	<u>1,060</u>	<u>5,624</u>
Total purchase commitments for the year	\$ 28,672	\$ 21,278
Purchases completed	<u>26,822</u>	<u>20,218</u>
Purchase commitments outstanding at the year end	<u>\$ 1,850</u>	<u>\$ 1,060</u>

DEBENTURES PURCHASED IN 2013

(thousands of Canadian dollars)

City of Humboldt	\$ 294
City of Humboldt	83
City of Meadow Lake	3,000
RM of Cymri No. 36	900
RM of Lacadena No. 228	844
RM of Lacadena No. 228	3,975
RM of Monet No. 257	844
RM of Monet No. 257	3,975
Town of Carlyle	1,932
Town of Dundurn	560
Town of Elrose	156
Town of Elrose	1,891
Town of Kyle	156
Town of Kyle	2,766
Town of Macklin	500
Town of Rosetown	2,500
Town of Stoughton	1,500
Village of Buena Vista	604
Village of Landis	75
Village of Maryfield	110
Village of Spy Hill	157
	<u>\$ 26,822</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 and Company LLP, 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.

/s/ Rae Haverstock

Rae Haverstock
General Manager

March 17, 2014

/s/ Jim Fallows

Jim Fallows, CA
Treasurer

INDEPENDENT AUDITOR'S REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the accompanying financial statements of the **MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN** (the Entity) which comprise the statement of financial position as at December 31, 2013 and the statements of comprehensive income, changes in equity, and cash flows for the year ended December 31, 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the **MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN** as at December 31, 2013, and the results of its financial performance and its cash flows for the year ended December 31, 2013 in accordance with International Financial Reporting Standards.

/s/ Dudley & Company

Dudley & Company
Chartered Accountants LLP

Regina, Saskatchewan
March 17, 2014

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF FINANCIAL POSITION

As at December 31

Dec. 31
2013

Dec. 31
2012
restated (Note 10)

(thousands of Canadian dollars)

ASSETS

Due from General Revenue Fund (Note 3)	\$	0	\$	1
Interest receivable		2,460		2,105
Debt retirement funds (Note 4)		2,318		2,542
Investments in municipal debentures (Note 5)		165,106		154,174
		<u>165,106</u>		<u>154,174</u>
	\$	<u>169,884</u>	\$	<u>158,822</u>

LIABILITIES AND PROVINCE'S EQUITY

Interest payable and accrued liabilities	\$	919	\$	1,027
Debt (Note 6)		158,150		138,277
		<u>158,150</u>		<u>138,277</u>
		159,069		139,304
 Province of Saskatchewan's Equity				
Reinvested earnings		10,815		19,518
		<u>10,815</u>		<u>19,518</u>
	\$	<u>169,884</u>	\$	<u>158,822</u>

Subsequent event (Note 12)

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended December 31

	<u>2013</u>	<u>2012</u>
	(thousands of Canadian dollars)	
Revenue		
Investment income - municipal debentures	\$ 6,071	\$ 6,057
Investment (loss) income - debt retirement funds	<u>(59)</u>	<u>72</u>
	<u>6,012</u>	<u>6,129</u>
Expenses		
Interest on debt	4,686	4,574
Administration	<u>29</u>	<u>29</u>
	<u>4,715</u>	<u>4,603</u>
Comprehensive Income	<u>\$ 1,297</u>	<u>\$ 1,526</u>

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 31

	<u>Reinvested Earnings</u>
	(thousands of Canadian dollars)
Balance, December 31, 2011	\$ 17,992
Comprehensive Income for 2012	1,526
Balance, December 31, 2012	<u>\$ 19,518</u>
Comprehensive Income for 2013	1,297
Dividends Paid to General Revenue Fund for 2013	<u>(10,000)</u>
Balance, December 31, 2013	<u>\$ 10,815</u>

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF CASH FLOWS

For the Year Ended December 31

	<u>2013</u>	<u>2012</u> restated (Note 10)
	(thousands of Canadian dollars)	
Operating Activities		
Interest received from municipal debentures	\$ 6,135	\$ 6,212
Interest received from short term investments	10	8
Interest paid on debt	(5,197)	(4,610)
Payments to suppliers	(27)	(28)
	921	1,582
Investing Activities		
Purchase of municipal debentures	(26,822)	(20,466)
Proceeds from maturing municipal debentures	15,891	7,202
	(10,931)	(13,264)
Financing Activities		
Debt retirement fund redemptions	657	0
Debt retirement fund installments	(513)	(392)
Issuance (repayment) of short term debt	19,865	(21)
Issuance of long term debt	9,800	12,096
Repayment of long term debt	(9,800)	0
Dividends paid	(10,000)	0
	10,009	11,683
Cash provided by financing activities	10,009	11,683
Net (decrease) increase in cash equivalents during the year	(1)	1
Cash equivalents, beginning of year	1	0
Cash equivalents, end of year	\$ 0	\$ 1

Cash equivalents are represented by amounts due from the General Revenue Fund

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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 issued by the International Accounting Standards Board effective as of December 31, 2013.

These financial statements were authorized for issue by the Board of Directors on March 17, 2014.

Basis of Measurement

These financial statements are presented in Canadian dollars, and have been prepared on a historical cost basis except for debt retirement funds, which have been measured at fair value.

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

The Corporation has implemented the following classifications:

- Due from the General Revenue Fund and Interest receivable are classified as "loans and receivables." After initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Corporation, the measured amounts generally approximate their cost.
- Municipal debentures receivable within one year and investments in municipal debentures are classified as "held to maturity investments." After initial fair value measurement, they are measured at amortized cost using the effective interest rate method.
- Debt retirement funds are classified as "financial assets at fair value through profit and loss," because they are actively traded. Thus, they are marked to market through net earnings and comprehensive income at each period end.
- Interest payable and accrued liabilities, debt payable within one year and long term debt payable are classified as "financial liabilities." After initial fair value measurement, they are measured at amortized cost using the effective interest rate method.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

New Accounting Standards Not Yet Adopted

The following new standards are not yet effective for the year ended December 31, 2013, and have not been applied in preparing these financial statements:

IFRS 9, *Financial Instruments*

IFRS 9 was issued by the International Accounting Standards Board (IASB) on November 12, 2009 and will replace International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement*. The standard is to be applied prospectively. The IASB has deferred finalization of IFRS 9 indefinitely, so an effective date is not known at this time.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. Under IFRS 9, financial assets will generally be measured initially at fair value plus particular transaction costs, and subsequently at either amortized cost or fair value. In October 2010, the IASB issued additions to IFRS 9 relating to accounting for financial liabilities. Under the new requirements, an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's credit risk in other comprehensive income, rather than within net earnings. The Corporation is reviewing the standard to determine the potential impact, if any, on the financial statements.

Annual Improvement Cycles

In 2012, the IASB issued two exposure drafts for Annual Improvements Cycles 2010 – 2012 and 2011 – 2013, which include minor amendments to a number of IFRS. The annual improvements process is used to make necessary but non-urgent changes to IFRS that are not included in other projects. The amendments issued are all effective for annual periods beginning January 1, 2014. The Corporation is in the process of assessing the impact of the amendments.

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.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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, 2013, scheduled debt retirement fund installments for the next five years are as follows:

(in thousands of Canadian dollars)	2014	2015	2016	2017	2018
Debt retirement fund annual contribution	\$ 561	\$ 561	\$ 511	\$ 511	\$ 483

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

(in thousands of Canadian dollars)	Dec. 31 2013	Dec. 31 2012
Debt retirement funds, beginning of year	\$ 2,542	\$ 2,084
Debt retirement fund instalments	513	392
Debt retirement fund earnings	109	136
	<u>3,164</u>	<u>2,612</u>
Debt retirement fund redemptions	(657)	0
Unrealized debt retirement fund market value gains (losses)	(189)	(70)
Debt retirement funds, end of year	\$ 2,318	\$ 2,542

\$0 (2012 - \$607 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, 2013

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 173 (December 31, 2012 – 130) debentures issued by 90 (December 31, 2012 – 84) issuers with a weighted average yield of 3.92% (December 31, 2012 – 3.94%) and maturity dates ranging from 2014 through 2042.

The carrying amount invested by issuer category is as follows:

	Dec. 31 2013		Dec. 31 2012
	(thousands of Canadian dollars)		
Cities	\$ 72,265		\$ 76,734
Towns	43,104		35,324
Villages	11,043		11,663
Rural Municipalities	32,584		24,017
School Divisions	6,110		6,436
	\$ 165,106		\$ 154,174

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

(in thousands of Canadian dollars)	2014	2015	2016	2017	2018
	\$ 64,806	\$ 8,276	\$ 15,266	\$ 8,170	\$ 10,071

The fair value of these debentures is \$176.6 million (December 31, 2012 - \$166.6 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 \$6.7 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 purchased after March 2009 is set at the fair market value of the debenture. For debentures purchased prior to March 2009, the redemption price is set at the face value of the debenture plus 50% of the difference between the face value of the debenture and its fair market value. During 2013 no debentures were redeemed (2012 - \$10 thousand).

At December 31, 2013, the Corporation had committed to purchase \$1.9 million (2012 - \$1.1 million) of debentures. These debentures were purchased subsequent to the year end.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

6. Debt

General Revenue Fund (GRF)

	Dec. 31, 2013		Dec. 31, 2012	
	Principal Outstanding	Average Interest Rate	Principal Outstanding	Average Interest Rate
(thousands of Canadian dollars)				
Operating line of credit	\$ 23,162	1.01%	\$ 3,297	1.10%
Amounts due in:				
1-5 years	93,674	3.22%	80,874	3.25%
6-10 Years	15,996	3.09%	38,596	3.36%
11-15 Years	15,530	4.53%	15,530	4.53%
16-20 Years	9,800	3.94%	0	-
	158,162		138,297	
Less: Unamortized deferred financing charges	(12)		(20)	
Debt	\$ 158,150	3.05%	\$ 138,277	3.37%

The fair value of debt is \$162.2 million (December 31, 2012 - \$146.3 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 \$5.9 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)	2014	2015	2016	2017	2018
	\$ 43,100	\$ 15,174	\$ 10,000	\$ 2,800	\$ 22,600

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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>2013</u>	<u>2012</u>
	(thousands of Canadian dollars)	
Balances		
Interest receivable	\$ 170	\$ 180
Debt retirement funds	2,318	2,542
Investments in municipal debentures	6,110	6,436
Interest payable and accrued liabilities	910	1,021
Debt	158,150	138,277
Transactions		
Investment income - municipal debentures	\$ 321	\$ 337
Investment income (loss) - debt retirement funds	(59)	72
Interest on debt	4,686	4,574
Administration	20	20

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 2013</u>	<u>Difference 2012</u>
	(thousands of Canadian dollars)			
2013	\$ -	\$ -	\$ -	\$ 4,365
2014	67,266	67,181	85	-
2 - 5 years	42,869	50,574	(7,705)	21,316
Thereafter	59,749	41,326	18,423	(6,183)
	<u>\$ 169,884</u>	<u>\$ 159,081</u>	<u>\$ 10,803</u>	<u>\$ 19,498</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, 2013

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 sinking funds on long-term debt issues and maintaining adequate cash reserves and an \$200 million short-term line of credit with the General Revenue Fund.

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, 2013, the Corporation had a maximum exposure of \$165.1 million (2012 - \$154.2 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. The investment guidelines applicable to the debt retirement funds prohibit the acquisition of non-investment grade securities. At December 31, 2013, the Corporation had a maximum exposure of \$2.3 million (2012 - \$2.5 million) on its debt retirement fund investments.

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).

The Corporation's debt retirement investments have been grouped into Level 2 of the fair value hierarchy. These investments are valued by the Ministry of Finance using 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.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

Other Information Regarding Financial Instruments

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

	Dec. 31 <u>2013</u>	Dec. 31 <u>2012</u>
Investments in municipal debentures	3.92%	3.94%
Interest bearing liabilities	3.05%	3.37%

The Corporation's financial instruments have the following carrying amounts:

	Dec. 31 <u>2013</u>	Dec. 31 <u>2012</u>
Financial assets at fair value through profit or loss (all classified as held for trading)	\$ 2,318	\$ 2,542
Held to maturity investments	165,106	154,174
Loans and receivables	2,460	2,106
Financial liabilities measured at amortized cost	(159,081)	(139,324)
Net carrying value of financial instruments	<u>\$ 10,803</u>	<u>\$ 19,498</u>

The Corporation incurred losses of \$189 (2012 – losses of \$70) on its financial instruments that are measured at fair value through profit and loss.

Total interest income on financial assets not held for trading was \$6,092 (2012 - \$6,063).
Total interest expense on financial liabilities not held for trading was \$4,686 (2012 - \$4,574).

The Corporation had no fee income or expenses arising from financial instruments not held for trading.

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

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.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

10. Restated Amounts

The 2012 comparative figures have been restated to conform to the current year presentation.

11. Operations Budget

The Corporation's annual budget is approved by its board of directors. For 2013, the approved budget was as follows:

(thousands of Canadian dollars)

Revenue	
Investment income - municipal debentures	\$ 7,735
Investment income - debt retirement funds	65
	<u>7,800</u>
Expenses	
Interest on debt	6,320
Administration - Ministry of Finance	20
- audit	10
	<u>6,350</u>
Surplus and comprehensive income	<u>\$ 1,450</u>

12. Subsequent Event

On January 30, 2014, the Corporation loaned \$100.0 million to the City of Regina to assist the City with financing the construction of a new stadium. The loan has an interest rate of 3.99%, and it matures on June 2, 2045.

The Corporation financed the loan to the City by borrowing \$100.0 million from the General Revenue Fund on January 17, 2014. The loan has an effective rate of 3.95% and it matures on December 2, 2043.

In aggregate, these transactions are expected to have the following impact on the Corporation's December 31, 2014 financial statements:

Investments in municipal debentures	\$98.4 million increase
Debt retirement funds	\$1.6 million increase
Debt	\$100.0 million increase
Investment income - municipal debentures	\$3.7 million increase
Interest on debt	\$3.7 million increase

