

**2018**  
**ANNUAL REPORT**





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# Message from the Chair



## Governance

The Municipal Finance Authority (MFA) is a unique organization created in 1970 to enhance the financial well-being of local governments. By pooling the needs and financial strength of British Columbia's local governments, MFA provides access to the lowest borrowing costs together with a suite of ultra low-cost investment products. As Chair, I was pleased to have worked with Vice-Chair Al Richmond (Cariboo Regional District) and re-elected Trustees Derek Corrigan, Greg Moore, Richard Walton (Metro Vancouver), Susan Brice (Capital Regional District), Joe Stanhope (Regional District of Nanaimo), Sharon Gaetz (Fraser Valley Regional District), Rob Gay (Regional District of East Kootenay) and Ron Toyota (Regional District of Central Kootenay). The meetings of the Board of Trustees have

included a review of our business plan and priorities, operating performance, access to financial markets, oversight, and administration. The performance and outlook for our Pooled Investment Funds were also regularly reviewed by the Investment Advisory Committee of the Board.

## Vision and Objectives

Our vision is to be recognized as a world-class financial institution for the benefit of taxpayers in British Columbia and to be our clients' preferred choice for financing and investing. We strive to increase our value each year.

The MFA provides capital financing for regional districts and member municipalities through the issuance of securities at a low cost in the institutional capital markets. In 2018, we issued over \$1.7 billion of long-term securities and \$5.7 billion of short-term securities in the capital markets. The MFA continues to provide the lowest municipal borrowing rates in Canada for all local governments in British Columbia, regardless of loan or community size. Any excess income generated each year is retained for the benefit of all taxpayers in the Province.

## Credit Ratings

In 2018, our AAA credit ratings, the highest attainable, were reaffirmed by three credit rating agencies: Standard and Poor's, Moody's, and Fitch Ratings. The Commercial Paper program was also given the highest attainable rating. Our AAA credit ratings validate our unique model and operational excellence, and reflect third-party analysis of the low-risk bondholders associated with our debentures.

## Financial Products and Services

We remain committed to maintaining the highest quality products and services to meet the many needs of our local government partners—helping them continue to build and maintain the communities that result in a strong British Columbia. In 2018, we introduced two new, highly popular deposit products and began the development of other potential pooled fund products.

## Education

Part of our mandate is to support education in the public sector, either directly or through our sponsorship of the many high-quality organizations supporting the local government sector in BC, including UBCM, GFOA, LGMA and LGLA. In addition to directly contributing over \$150,000 in 2018 to support local government courses, programs, workshops, and conferences throughout the province, trustees and management contribute their time on behalf of the MFA at various local government events to enhance the financial knowledge of our members.

## Management and Staff

I want to congratulate MFA staff for their continued hard work and commitment. For 2018, the organization executed on its expected hiring plan which has reduced operational risks at the organization while providing us more capacity to service our customers. I would like to take the opportunity to thank Graham Egan, our Director of Finance who retired in late 2018. Graham has been an instrumental leader since joining the MFA almost 20 years ago—managing MFA's accounting, long-term lending, and investing functions. Please also join me in welcoming Matthew O'Rae, who joined in late 2018 as our new Director of Finance.

**MALCOLM BRODIE** *Chair*

# MFA Trustees and Members

## BOARD OF TRUSTEES\*

The Board of Trustees exercises executive and administrative powers and duties, including the selection of the secretary-treasurer.

Oversight of policy, strategy, and business plans is conducted through the Finance and Audit Committee, and the Investment Advisory Committee.

## MEMBERS OF THE AUTHORITY

The Members of the Authority consist of elected local government officials appointed by the individual boards of each regional district within BC. The number of Members (currently 39) is based on the population of the regional districts.

The Members meet twice a year; once at the Annual General Meeting (AGM) held prior to March 31st, and again at the Semi-Annual Meeting held in the fall. At these meetings, the Members review the requests for financing and authorize the issue and sale of securities. At the AGM, in addition to approving both financial statements and external auditors, the Members elect 10 Trustees and a chairperson to govern the Authority until the next AGM. The Board of Trustees must be comprised of four Members from Metro Vancouver, one from the Capital Regional District, and the other five from the remaining regional districts.

## REGIONAL DISTRICT

## MEMBER APPOINTED

Alberni-Clayoquot	M. Kokura
Bulkley-Nechako	B. Miller
Capital	S. Brice*
Capital	D. Howe
Cariboo	A. Richmond*
Central Coast	A. Sayers
Central Kootenay	R. Toyota*
Central Okanagan	G. Given
Columbia Shuswap	R. Martin
Comox Valley	E. Grieve
Cowichan Valley	T. Walker
East Kootenay	R. Gay*
Fraser-Fort George	L. Hall
Fraser Valley	S. Gaetz*
Fraser Valley	P. Ross
Kitimat-Stikine	A. Maitland
Kootenay Boundary	R. Russell
Metro Vancouver	M. Brodie*
Metro Vancouver	D. Corrigan*
Metro Vancouver	J. Coté
Metro Vancouver	D. Mussatto
Metro Vancouver	M. Clay
Metro Vancouver	R. Louie
Metro Vancouver	R. Walton*
Metro Vancouver	J. Villeneuve
Metro Vancouver	R. Stewart
Metro Vancouver	G. Moore*
Mount Waddington	S. Ackland
Nanaimo	J. Stanhope*
North Coast	B. Pages
North Okanagan	B. Fleming
Northern Rockies	D. Soles
Okanagan-Similkameen	K. Kozakevich
Peace River	B. Sperling
qathet	P. Brabazon
Squamish-Lillooet	J. Crompton
Strathcona	A. Adams
Sunshine Coast	B. Milne
Thompson-Nicola	J. Ranta



# Message from the Chief Administrative Officer



## Results

Our strategic retention fund increased to \$73.2 million by the end of 2018, a \$9.3 million increase from 2017. This was accomplished by a combination of income from operations of \$3.2 million, earnings on investments of \$2.0 million, and short-term debt fund earnings of \$4.1 million. Currently, the retention fund is unrestricted and is available for operating activities, debt obligations, and distributions to clients and members; however, investors, financial regulators, and rating agencies around the world have been increasingly focused on capital levels held by financial institutions. In 2019, we will continue our work with market participants and the Board of Trustees on a plan that will clarify targets and future uses of internally generated capital.

Generally, our goal is to hold the necessary capital on our balance sheet to be supportive of our AAA ratings.

## Wholesale Borrowing Programs and Lending

Our long-term borrowing program raised \$1.74 billion during the year. Our public bond issues in 2018 included \$1,015 million raised in two 5-year issues and \$725 million raised in two 10-year issues.

Loan growth in 2018 was up by \$313 million from 2017, with outstanding loans of \$4.7 billion at year-end. Of the new loans issued, financing was focused on projects related to sewer and water infrastructure, hospital capital, protective services, roads, and parks and recreation projects.

Our short-term borrowing program continues to be very active, with \$675 million of commercial paper outstanding at year end and over \$5 billion refinanced in the money markets in 2018. This program also achieves the lowest rates amongst our peers and allowed us to provide short-term financing to local government at rates of between 1.94% and 2.80% throughout 2018. MFA had 454 short-term loans outstanding to local governments in BC at the end of 2018, averaging \$570,000 in size.

## Safest Municipal Issuer in Canada for Investors

Our positioning strategy with investors is to promote MFA as the best AAA credit in the municipal sector and focus our program on creating large benchmark securities. In addition, we are rewarding our underwriting syndicate members that make active secondary markets in our bonds. This helps to ensure that we borrow at rates lower than our municipal peers in Canada—ultimately reducing taxpayer burden across the Province. Our active investor relations program supports our message and results in secure access to the lowest cost of funds, even in volatile market conditions.

## Assets Under Management

Total assets exceeded \$9 billion at the end 2018 up from \$8.8 billion in 2017. I invite you to review the annual report for more details.

## Pooled Investment Funds

Our pooled investment funds ended the year at close to \$2.8 billion in assets, up about \$240 million from 2017. We actively pursued many new ideas for new pooled fund offerings with our clients in 2018, including the possibility of creating a socially responsible fund and a mortgage fund. Work will continue on those fronts, particularly if more demand for those products materializes. We were very pleased to introduce our first new pooled fund product in many years—a pooled High-Interest Savings Account (HISA), that allows access to very attractive deposit rates.

## Employees—Our Most Important Asset

Our 13-member professional team is responsible for operations, financing, lending, and investing. In 2018, we substantially completed our reorganization and hiring program which began in 2015 with the hiring of four new employees. The capacity and better segregation of risk functions is allowing us to build on our core products and create greater value for BC taxpayers.

**PETER URBANC** *Chief Administrative Officer*

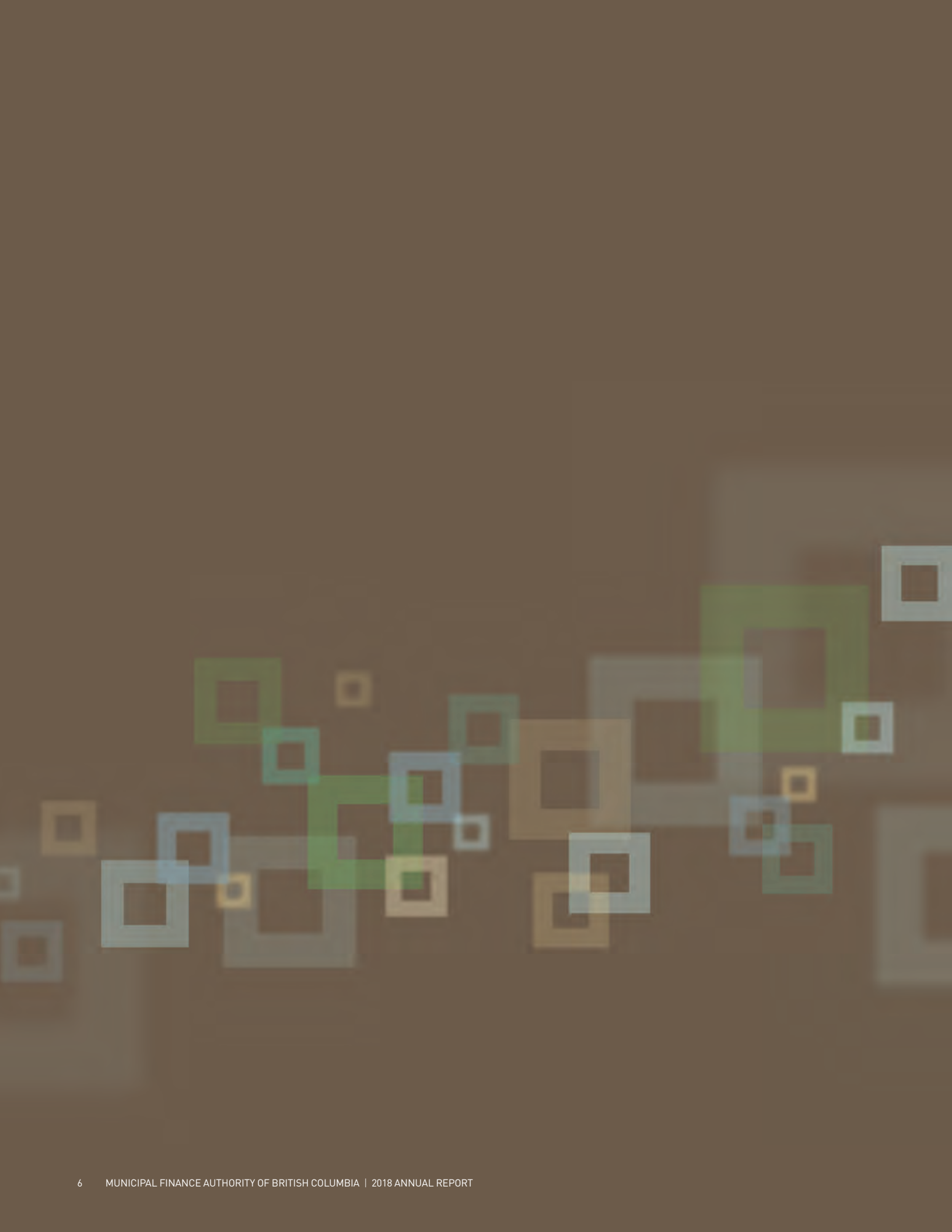
# Financial Statements and Related Reports

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# Management Discussion and Analysis

This Management Discussion and Analysis provides commentary on the financial and operating results of the Municipal Finance Authority of British Columbia (MFA) for the 2018 fiscal year and should be read in conjunction with the 2018 audited consolidated financial statements and accompanying notes.

## OVERVIEW OF BUSINESS

The MFA was established in 1970 under the *Municipal Finance Authority Act* (the “Act”) to provide long-term and short-term financing for regional districts and their member municipalities, regional hospital districts, and other prescribed institutions in British Columbia (BC) (collectively, the “clients”). Also included in the client base are the Greater Vancouver Water District, Greater Vancouver Sewerage and Drainage District, Emergency Communications for Southwest British Columbia (E-Comm), Capital Region Emergency Service Telecommunications (CREST), and the South Coast British Columbia Transportation Authority (TransLink). The City of Vancouver is also a member but functions under its own charter and retains the right to issue its own securities. Long-term debt requirements of local governments (5 to 30 years), excluding the City of Vancouver, must be borrowed through the MFA.

Our primary mandate is to raise long-term capital through the issuance of securities, in the name of the Municipal Finance Authority of British Columbia, for the purpose of funding client’s projects within British Columbia. This report and the consolidated financial statements describe this process in greater detail.

Short-term financing needs are met through a commercial paper program, authorized up to \$700 million, and backstopped by two Canadian chartered banks. This funding supports interim financing for short-term projects, equipment loans, and funding in anticipation of long-term borrowing or qualifying future revenue receipts. Proceeds raised, that are not immediately lent to clients, are invested in short-term investments or are held as cash for liquidity purposes. Additional liquidity is provided through access to a \$100 million credit facility also with a Canadian chartered bank.

Investment opportunities for clients are provided through the operation of a Pooled Investment Fund Program. These funds include high interest savings accounts, a money market fund, an intermediate fund, and a bond fund. The funds are reported on separately and are not included in the audited consolidated financial statements or annual report. The MFA does not provide investment advice to clients.

In addition to the *Act*, the operations are also subject to the application of other statutes. Notable provincial legislation that integrates with the MFA is *The Local Government Act*, *The Community Charter*, and the *South Coast British Columbia Transportation Authority Act*.

## GOVERNANCE

Oversight is provided by 39 representative members appointed from each of the 28 regional districts within the province of British Columbia. A board of ten Trustees is elected annually from the Members to exercise executive and administrative powers including policy, strategy, and business plans.

The Board of Trustees also provides guidance through the Finance and Audit Committee and the Investment Advisory Committee.

# Management Discussion and Analysis continued

## KEY PERFORMANCE DRIVERS

### *Reputation and History*

The MFA has never defaulted on any debt obligation and accordingly has never imposed a tax levy nor made any claim on its Debt Reserve Fund.

Our continued success has resulted in lower program costs, absorption of fees, and the reduction of interest charges on loans to clients.

### *Borrowing Process*

Through a cooperative approach with our clients and the Province of British Columbia, we adhere to the requirements of the Act and other relevant legislation regarding the borrowing process and expenditure limits.

All borrowings must be within each municipality's individual borrowing power, which stipulates that only 25% of sustainable revenue may be allocated to debt servicing costs (principal and interest). An imposed cap on the inclusion of tax revenue derived from industry lessens the reliance on this sector as a primary funding source for our clients. The purpose of this cap is to ensure that the revenue base is diversified and that local governments are not relying exclusively on one category of taxation.

Long-term borrowing requests or bylaws must be approved first at the local government level through a public consultation process and then at the regional district level. Bylaws must also receive legal approval from the Provincial Ministry through the issuance of a Certificate of Approval which ensures that the request is within financial borrowing limits. Only after these steps have been completed can a borrowing bylaw be presented for funding consideration.

The Members of the Authority review all requests for financing and, in consideration of the relevant market and economic conditions, may authorize the issue and sale of securities to fund those requests.

## INVESTOR CONFIDENCE

Long-term financing needs are met through the placements of bullet debentures in capital markets primarily through the issuance of 5 and 10-year bullet bonds. This strategy accommodates both the borrowing terms requested by our clients and the market preferences of investors. On rare occasions amortizing, serial, and longer-dated debentures have been issued to meet specific funding requirements. Bond issuances are syndicated through the services of a financial consortium comprised of Canadian chartered banks and financial institutions.

Short-term funding needs have been fulfilled through a commercial paper program authorized up to \$700 million and supported by a dealer network of Canadian chartered banks.

Both financing programs allow for a wide distribution of our paper to investors throughout Canada and has established us as one of the premium municipal credits in the world with the highest possible credit rating attainable.

## CREDIT FUNDAMENTALS

### *Joint and Several*

Local governments, within each regional district, are jointly and severally liable for each other's long-term debt borrowings. When a municipality passes a borrowing bylaw and presents it to its regional district for the purpose of issuing securities, all municipalities within the region must vote on their acceptance of that borrowing. Approval of the bylaw binds each municipality with joint and several obligations.

# Management Discussion and Analysis continued

In the normal course of business, debt servicing costs are collected from regional districts, which in turn requisition funds from the participating municipalities. If a municipality is unable to make payment, then the regional district incurs that deficiency and must work to recover any default from its member municipalities.

## *Debt Reserve Fund*

The Act requires the establishment of a Debt Reserve Fund. The fund accumulates through the withholding of 1.00% of principal borrowed on each long-term loan request. If at any time the MFA does not have sufficient funds to meet payments due on its obligations, the payments must be made from the Debt Reserve Fund. Once a client has fulfilled its loan obligation, their portion of the Debt Reserve Fund is repaid. Since inception in 1970 there have been no loan defaults and accordingly the funds held in the Debt Reserve Fund has never been called upon.

## *Taxing Powers*

Under the provisions of its Act, the MFA has unfettered access to the full property assessment base in the Province of British Columbia without requiring approval of any senior level of government. Annually a nominal tax rate is applied on taxable property in order to maintain the levy and preserve the collection process.

If the Debt Reserve Fund is required to meet obligations as described above, and payments cannot be recovered under the terms of the loan agreements with the delinquent regional district, the Trustees may impose a tax on British Columbia taxable land and improvements to restore the fund.

If the MFA does not have sufficient funds to meet payments or sinking fund contributions the Trustees must levy or impose rates on all taxable land and improvements in British Columbia sufficient to meet the payments.

## *Long-term loan Methodology*

Long-term loan agreement terms stipulate that clients will be invoiced at the regional district level for principal and interest payments. Regional districts are then responsible for the collection of funds subsequently lent to member municipalities. Administering the repayment process in this manner augments liquidity through emphasis of regional districts' debt guarantee provisions.

Loan repayments follow a sinking fund methodology in which clients pay principal amounts in equal annual installments. Funds received are invested and held as an offset against the associated source of financing, typically accomplished through bullet debenture issuances. This arrangement provides clients with budget certainty (fixed loan repayment stream) while eliminating the requirement for balloon payments at loan expiry.

Clients are compensated for loan payments, received in advance of the associated debenture maturities, with the application of an actuarial reduction (discount) applied to each principal payment. The discount is covered through the earnings on investments held.

Investments are retained for debt retirement. Actuarial rates are set at the commencement of each loan and reviewed against actual investment performance. The MFA retains the right to adjust the actuarial assumption as required. Earnings in excess of the actuarial rate are recorded as a surplus and form a component of equity at year end. If a surplus exists when the debenture matures, these funds will then be distributed to participating clients.

# Management Discussion and Analysis continued

## MANAGEMENT AND STAFF

Operations are managed by a small team of professionals with considerable tenure contributing to the organization's key successes. The specialized nature of operations requires people skilled in the areas of finance, accounting, and legislation. In that regard, employees are continually updating their education and improving their technical skills which necessitates traveling throughout the Province and actively engaging clients, assisting them in financial matters, and helping them navigate the borrowing processes.

## PERFORMANCE MEASUREMENT

### *Independent Credit Rating*

Financial strength is founded on the structure of the organization itself and the conservative nature of clients. Through a combination of checks and balances over the borrowing process, joint and several obligations of regional districts and their member municipalities, a substantial Debt Reserve Fund, and the ability to levy a tax on all property in the Province, the MFA continues to maintain its high credit worthiness. Credit agencies have annually affirmed the MFA and its general obligation debenture debt as the highest investment quality available. Long-term credit ratings as at December 31, 2018; **Aaa (Moody's Investors Service), AAA (Standard & Poor's), and AAA (Fitch Ratings)**.

The commercial paper program is rated with the highest credit worthiness for short-term money market instruments in Canada. Short-term credit ratings at December 31, 2018; **P-1 high (Moody's Investors Service) and A-1+ (Standard & Poor's)**. All commercial paper issued is secured by two Canadian chartered banks that provide dedicated term loan facilities.

## COST OF BORROWING

During 2018 \$1,740 million was raised in long-term debt through the issuances of a new 5-year debenture and the issuance and reopening of one 10.5-year debenture. The performance of these issuances are measured against senior governments and large municipalities in Canada.

**April:** Issued \$410 million of a new 5-year debenture with a coupon of 2.60% yield of 2.602%, dated April 23, 2023. At the time of this issue, the Government of Canada 5-year benchmark was yielding 2.042% while other comparable municipal issuers were returning a yield in the range of 2.75% - 3.00%.

**April:** Issued \$170 million of a new 10.5-year debenture with a coupon of 3.05% yield of 3.055%, dated October 23, 2028. At the time of this issue, the Government of Canada 10-year benchmark was yielding 2.210% while other comparable municipal issuers were returning a yield in the range of 3.15% - 3.30%.

**September:** Issued an additional \$555 million of the 3.05% October 23, 2028 debenture with a yield of 3.084% bringing the total outstanding to \$725 million. At the time of this reopening, the Government of Canada 10-year benchmark was yielding 2.329% while other comparable municipal issuers were returning a yield in the range of 3.15% - 3.30%.

**December:** Issued \$605 million of a new 5-year debenture with a coupon of 2.80%, yield of 2.821%, dated December 3, 2023. At the time of this issue, the Government of Canada 5-year benchmark was yielding 2.306% while other comparable municipal issuers were returning a yield in the range of 2.95% - 3.10%.

As well during the year a total of \$5.7 billion in commercial paper was issued, ranging in terms from 35-days to 91-days, with yields comparable to Provincial issuers. Commercial paper is benchmarked in relation to Government of Canada Treasury Bills.

# Management Discussion and Analysis continued

## RISK MANAGEMENT

Management is responsible for safeguarding systems, identifying risks, and recommending the appropriate policies and framework. The Board of Trustees reviews and approves the risk management policies and associated reporting procedures to enable them to monitor the adherence to these policies.

### *Market and Interest Rate Risk*

To minimize exposure due to market volatility all borrowings are denominated in Canadian dollars and the issuances of debentures are matched to the timing of funding for long-term loans. Lending rates are set on loans to cover the cash flow requirements of associated funding debentures. For clients with loan terms that extend beyond the maturity of the related debenture(s), an interest rate refinancing risk exists. At the time of refinancing, the lending rate on remaining loans will be reset in relation to the rate on the issuance of new debt.

The investment policy does not allow the purchase of equity securities and is restricted to investment grade (BBB or higher) fixed-income securities with the preservation of principal as the highest priority.

### *Liquidity Risk*

Liquidity risk is the risk that an organization will not have sufficient cash to meet its obligations as they become due. This risk is managed by monitoring cash flows on a daily basis, maintaining a liquid Debt Reserve Fund (\$107 million as at December 31, 2018), ensuring access to a \$100 million bank facility, and actively participating in the commercial paper market.

Although never undertaken in its history, the MFA can also invoke the joint and several guarantee of its clients, call outstanding demand notes, and impose a property tax on all taxable land and improvements in British Columbia.

### *Operational Risk*

Operational risk is the risk associated with a breakdown in internal controls, systems or procedural failures, human errors, or malfeasance. These risks can never be fully eliminated but have been minimized by establishing appropriate policies and sound internal controls through segregation of duties, strong accountability and reporting practices with a specific focus on stringent controls over cash balances and cash movements.

### *Client Credit Risk*

Credit risk is the risk of loss due to a client failing to meet its obligations. Since inception, the MFA has never experienced a loan default nor had to access its Debt Reserve Fund. Prior to funding any loans, clients must demonstrate the financial capacity to service debt as regulated by the Province and must adhere to a strict borrowing process. The MFA also monitors global and provincial economic conditions, accesses regional political issues, and analyzes the submission of client's financial records.

## OUTLOOK

Projections for 2019 indicate an estimated \$811 million in new long-term loans, an additional \$802 million in refinancing of existing long-term loans, and a market presence of \$600 million in commercial paper outstanding

## FINANCIAL SUMMARY

The MFA continues to produce positive financial results with profits in the Operating Fund, Long-term financing, and the Short-term financing programs. For the year ended 2018, total revenue amounted to \$417 million against total expense of \$285 million for an annual profit of \$132 million.

During the year, clients were allocated \$117 million consisting of surplus payments, forgiven loan repayments, and actuarial adjustments.

# Management Report

The consolidated financial statements of the Municipal Finance Authority of British Columbia (the "Authority") are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards, consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available as at March 28, 2019.

Management has developed and maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel, and appropriate delegation of authority and segregation of responsibilities within the organization.

The consolidated financial statements have been examined by KPMG LLP, the Authority's independent external auditors. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements fairly present, in all material respects, the Authority's financial position, results of operations, and cash flows in accordance with International Financial Reporting Standards. Their Independent Auditors' Report, which follows, outlines the scope of their examination and their opinion.

The Board of Trustees, through the Finance and Audit Committee, monitors management's responsibility for financial reporting and internal controls. The Board or Committee meets with the external auditors and management to satisfy itself that each group has properly discharged its responsibility to review the consolidated financial statements before recommending approval by the Members of the Authority. The external auditors have full and open access to the Board, with and without the presence of management.



**Matthew O'Rae, MBA, CPA, CA**

*Director of Finance*

Victoria, British Columbia, Canada

# Independent Auditors' Report

*To the Members of the Municipal Finance Authority of British Columbia*

## Opinion

We have audited the accompanying consolidated financial statements of the Municipal Finance Authority of British Columbia, which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statement of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies  
(*Hereinafter referred to as the "financial statements"*).

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Municipal Finance Authority of British Columbia as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended 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 "*Responsibilities for the Audit of the Financial Statements*" section of our report.

We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

## Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditors' report thereon, included in the document entitled "Annual Report" including Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the "Annual Report" including Management's Discussion and Analysis as at the date of this auditors' report. 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 the auditors' report.

We have nothing to report in this regard.

# Independent Auditors' Report continued

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

Management is responsible for the preparation and fair presentation of financial statements in accordance with International Financial Reporting Standards (IFRS), 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 Authority'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 Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority'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 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.



## Independent Auditors' Report continued

### 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 Authority'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 Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 report. However, future events or conditions may cause the Authority 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.
- 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The logo for KPMG LLP, featuring the letters 'KPMG' in a large, bold, sans-serif font, with 'LLP' in a smaller font to the right. A horizontal line is drawn underneath the text.

*Chartered Professional Accountants*

March 28, 2019

Victoria, British Columbia, Canada

# Consolidated Statements of Financial Position

AS AT DECEMBER 31

THOUSANDS OF DOLLARS		
	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 592,367	\$ 319,093
Investments (Note 4)	3,600,171	3,751,880
Accrued interest and other receivables	78,841	91,763
Short-term loans to clients (Note 5)	257,601	279,409
Long-term loans to clients (Note 6)	4,714,743	4,401,677
Property and equipment (Note 7)	245	299
<b>Total Assets</b>	<b>\$ 9,243,968</b>	<b>\$ 8,844,121</b>
<b>LIABILITIES</b>		
Trade and other payables (Note 8)	\$ 36,470	\$ 35,316
Bank and short-term indebtedness (Note 9)	674,165	699,420
Due to clients (Note 10)	107,486	108,708
Derivative contracts (Note 11)	–	8,067
Long-term debt (Note 12)	8,135,653	7,642,664
<b>Total Liabilities</b>	<b>8,953,774</b>	<b>8,494,175</b>
<b>EQUITY</b>		
Accumulated other comprehensive income	241,748	315,480
Retained earnings	48,446	34,466
<b>Total Equity</b>	<b>290,194</b>	<b>349,946</b>
<b>Total Liabilities and Equity</b>	<b>\$ 9,243,968</b>	<b>\$ 8,844,121</b>

The notes on pages 20 to 41 are an integral part of these consolidated financial statements



**Matthew O'Rae, MBA, CPA, CA**

Director of Finance  
Victoria, British Columbia, Canada

# Consolidated Statements of Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31

	2018	2017
<b>THOUSANDS OF DOLLARS</b>		
<b>REVENUE</b>		
Interest from loans to clients	\$ 252,990	\$ 260,430
Investment income	139,771	137,158
Gain from change in fair value of derivative contracts	–	574
Amortization of premiums on long-term debt	21,573	23,740
Financial service fees	2,252	2,442
Recoveries from new issues	8	–
Operating levy	412	371
<b>Total Revenue</b>	<b>417,006</b>	<b>424,715</b>
<b>EXPENSE</b>		
Interest on long-term debt	263,946	276,768
Interest on bank and short-term indebtedness	10,308	5,451
Amortization of discounts on long-term debt	4,825	4,704
Administration	3,182	3,074
Investment income due to clients (Note 10)	2,597	1,497
Impairment loss on investments and loans to clients	285	–
Debt management and marketing	112	110
Loss from change in fair value of derivative contracts	29	–
<b>Total Expense</b>	<b>285,284</b>	<b>291,604</b>
<b>Profit for the year</b>	<b>131,722</b>	<b>133,111</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
Items that are or may be reclassified subsequently to profit or loss:		
Net change in fair value of available-for-sale financial assets	–	92,035
Net change in fair value transferred to profit or loss of available-for-sale financial assets	–	(28,720)
Financial instruments at FVOCI—net change in fair value	(63,017)	–
Financial instruments at FVOCI—reclassified to profit or loss	(10,738)	–
Financial instruments at FVOCI—net remeasurement in loss allowance	(4)	–
<b>Other Comprehensive Income for the year</b>	<b>(73,759)</b>	<b>63,315</b>
<b>Total Comprehensive Income for the year</b>	<b>\$ 57,963</b>	<b>\$ 196,426</b>

The notes on pages 20 to 41 are an integral part of these consolidated financial statements

# Consolidated Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31

<i>THOUSANDS OF DOLLARS</i>				
	Accumulated other comprehensive income*		Retained earnings	Total
Balance December 31, 2016	\$ 252,165		\$ 20,058	\$ 272,223
Profit for the year	-		133,111	133,111
Allocations to clients (Note 13)	-		(118,703)	(118,703)
Net change in fair value of available-for-sale financial assets:				
to be realized in profit or loss on disposal	92,035		-	92,035
transferred to profit or loss	(28,720)		-	(28,720)
Balance December 31, 2017	\$ 315,480		\$ 34,466	\$ 349,946
Adjustment on initial application of IFRS 9	27		(333)	(306)
Restated balance January 1, 2018	\$ 315,507		\$ 34,133	\$ 349,640
Profit for the year	-		131,722	131,722
Allocations to clients (Note 13)	-		(117,409)	(117,409)
Net change in fair value of FVOCI financial assets:				
Financial instruments at FVOCI—net change in fair value	(63,017)		-	(63,017)
Financial instruments at FVOCI—reclassified to profit or loss	(10,738)		-	(10,738)
Financial instruments at FVOCI—net remeasurement in loss allowance	(4)		-	(4)
Balance December 31, 2018	\$ 241,748		\$ 48,446	\$ 290,194

*The notes on pages 20 to 41 are an integral part of these consolidated financial statements*

\*Accumulated other comprehensive income represents unrealized gain (loss) on fair value through other comprehensive income investments (2017 - available-for-sale investments).

# Consolidated Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31

	THOUSANDS OF DOLLARS	
	2018	2017
<b>OPERATING ACTIVITIES</b>		
Profit for the year	\$ 131,722	\$ 133,111
Non-cash items:		
Loss (gain) on disposal of investments	54	(2,580)
Accretion of discounts on investments	(83,979)	(78,363)
Amortization of premiums and discounts on long-term debt	(16,748)	(19,036)
Investment income due to clients	2,597	1,496
Depreciation on property and equipment	55	55
Loss (gain) from change in fair value of derivative contracts	29	(574)
Impairment loss on investments and loans to clients	285	-
Expected credit loss allowance on cash and cash equivalents	(3)	-
Changes in accrued interest and other receivables	12,923	(7,964)
Changes in trade and other payables	1,151	1,234
<b>Net cash provided by operating activities</b>	<b>48,086</b>	<b>27,379</b>
<b>INVESTING ACTIVITIES</b>		
Investments sold or matured	903,344	1,010,152
Investments purchased	(741,465)	(1,004,502)
<b>Net cash applied to investing activities</b>	<b>161,879</b>	<b>5,650</b>
<b>FINANCING ACTIVITIES</b>		
New debt issued	1,732,989	1,021,131
Debt retired	(1,223,252)	(732,820)
Loan repayments from clients	471,074	488,787
New loans to clients	(877,917)	(679,832)
Bank indebtedness and commercial paper issued	5,644,255	5,654,119
Bank indebtedness and commercial paper repaid	(5,669,510)	(5,654,375)
Settlement of derivative contracts	(8,094)	(11,399)
Contributions from clients for new long-term loans	7,255	5,198
Contributions and earnings refunded to clients	(11,074)	(5,896)
Surplus payments to clients (Note 13)	(2,417)	(2,468)
<b>Net cash provided by financing activities</b>	<b>63,309</b>	<b>82,445</b>
Increase in cash and cash equivalents	273,274	115,474
Cash and cash equivalents, beginning of the year	319,093	203,619
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 592,367</b>	<b>\$ 319,093</b>

*The notes on pages 20 to 41 are an integral part of these consolidated financial statements*

*Supplementary cash flow information (Note 14)*

# Notes to the Consolidated Financial Statements

## 1. Reporting entity

The Municipal Finance Authority of British Columbia (the "Authority") has its head office at 3680 Uptown Boulevard Victoria, British Columbia. It operates under the *Municipal Finance Authority Act* (the "Act") as a central borrowing agency for the financing of capital requirements of regional districts and their member municipalities, regional hospital districts, and other special purpose municipal bodies (collectively the "clients"). The Authority issues its own securities and lends the proceeds to clients at whose request the financing is undertaken. Obligations of the Authority are not obligations of the Province of British Columbia (the "Province") and are not guaranteed, directly or indirectly, by the Province.

The Authority may annually impose rates, not exceeding prescribed amounts, on all taxable land and improvements in the Province to meet the annual operating budget. Additional rates will be levied if the Board of Trustees is of the opinion that debt repayments may not be recovered within a reasonable time under the long-term loan agreements with clients.

Under Sections 149 (1) (c) and 149 (1) (d.5) of the *Income Tax Act*, the Authority is exempt from income taxes.

These consolidated financial statements reflect the capital financing and general operations of the Authority. The Authority also has established pooled investment funds which are reported on separately.

These Consolidated Financial Statements incorporate the financial statements of the Authority and its wholly owned subsidiary, the *MFA Leasing Corporation*, an entity controlled by the Authority. The financial statements of the subsidiary have been included in the consolidated financial statements from the date that control commenced and will continue to be included until the date that control ceases. The accounting policies of the subsidiary are aligned with the policies adopted by the Authority.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

## 2. Basis of presentation

### (a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

The consolidated financial statements were authorized for issue by the Members of the Authority on March 28, 2019.

### (b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value.
- Fair value through other comprehensive income (FVOCI) financial assets, including investments, are measured at fair value.

### (c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Authority's functional currency. All tabular financial information presented has been rounded to the nearest thousand.

### (d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Key sources of estimation uncertainty are the areas where assumptions and estimates have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities. These are:

- (i) Investments—in determining the valuation of FVOCI financial assets where quoted prices in active markets are not available, the Authority determines the fair value of future payments to be received utilizing appropriate discount rates based on comparable market transactions and the estimated effect of credit risk for the transaction.

# Notes to the Consolidated Financial Statements continued

## 2. Basis of presentation (continued)

### (d) Use of estimates and judgments (continued)

(ii) The amounts recognized in the notes to the consolidated financial statements regarding loans to clients (note 6) are based on expectations of interest income earned on investments. Actual income realized will differ from the estimates, perhaps materially.

(iii) Expected credit loss on financial assets — the determination of the allowance for expected credit losses on investments and loans to clients is another source of estimation uncertainty. This requires the Authority to make complex, subjective judgments on the credit risk of its financial assets.

### (e) Reclassification of Cash and cash equivalents:

Investments with maturities of less than three months from acquisition have been reclassified to Cash and cash equivalents as these are considered highly liquid in nature. Prior year figures have been restated for comparative purposes.

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

### (a) Retained earnings:

The Authority has no authorized or issued share capital.

The Authority is required under the *Act* to segregate certain activities by fund.

The amount of retained earnings reallocated to clients is disclosed in the consolidated statements of changes in equity (note 13).

### (b) Revenue recognition:

The annual operating tax levy is recognized as revenue in the Operating Fund when the rates have been set by the Authority in March of each year. It is collected on behalf of the Authority by the municipalities in the Province and by the Provincial Surveyor of Taxes and is payable to the Authority by August 1st each year.

Financial service fee revenue is recognized as earned and measured at a rate of 1.00% per annum on the book value of investment holdings.

### (c) Interest revenue and expense:

Interest revenue and expense for all interest-bearing financial instruments is recognized within interest revenue and interest expense in the consolidated statements of comprehensive income using the effective interest method. The effective interest method is the rate that exactly discounts the estimated future cash flow through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Authority estimates future cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation of the effective interest method includes all fees and costs paid or received between parties to the contract that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest revenue and expense presented in the consolidated statements of comprehensive income includes:

- interest on financial assets and financial liabilities measured at amortized cost, calculated on an effective interest basis
- interest on investment securities measured at FVOCI is calculated on an effective interest basis

# Notes to the Consolidated Financial Statements continued

## 3. Significant accounting policies (continued)

(d) Financial instruments:

(i) Recognition and initial measurement:

Financial assets and financial liabilities are initially recognized when the Authority becomes a party to the contractual provisions of the instrument.

At initial recognition, the Authority measures a financial asset or a financial liability at its fair value plus, in the case of an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable its acquisition or issue.

(ii) Classification and subsequent measurement:

### *Financial assets*

From January 1, 2018, the Authority classifies its financial assets between those to be measured subsequently at FVOCI and those to be measured at amortized cost. Financial assets are not reclassified subsequent to their initial recognition unless the Authority changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Loans to clients are classified as financial assets at amortized cost which is consistent with the Authority's business model of holding loans to collect contractual cash flows that are solely for payments of principal and interest. Financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses.

An investment is measured at FVOCI if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are subsequently measured at fair value. Interest income calculated using the effective interest method and impairment are recognized in profit or loss. Other net gains and losses are recognized in Other comprehensive income (OCI). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Interest income and impairments are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.



# Notes to the Consolidated Financial Statements continued

## 3. Significant accounting policies (continued)

### (d) Financial instruments (continued)

#### (ii) Classification and subsequent measurement (continued):

Prior to January 1, 2018, the Authority classified financial assets as available for sale and loans and receivables. The Authority has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Authority's previous accounting policy. The accounting policy applied to financial assets for years prior to January 1, 2018 are:

#### *Loans and receivables:*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables are comprised of Cash and cash equivalents, Loans to clients, Short-term loans to clients, and Accrued interest and other receivables. Cash and cash equivalents comprise cash balances with original maturities of three months or less.

#### *Available-for-sale financial assets:*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories of financial assets. The Authority's investments are classified as available-for-sale financial assets. Available-for-sale financial assets are initially recorded at fair value. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented within equity. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

#### *Financial liabilities:*

A financial liability is classified as FVTPL if it is held for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense is recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

The Authority classifies bank and short-term indebtedness, trade and other payables, due to clients and long-term debt as other financial liabilities measured at amortized cost.

The Authority derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. On recognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognized in profit or loss.

#### (iii) Derivative financial instruments, including hedge accounting:

As part of the sinking fund investment practices, the Authority may purchase derivative or cash flow annuity contracts with institutions whereby the Authority sells a cash flow stream of principal collections from a client or group of clients to an institution for a future lump sum principal amount. The Authority will enter into these contracts to achieve fixed yields to meet actuarial requirements or to aggregate cash flows which could not be effectively invested by themselves due to the magnitude of individual transactions.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

# Notes to the Consolidated Financial Statements continued

## 3. Significant accounting policies (continued)

### (d) Financial instruments (continued):

#### (iii) Derivative financial instruments, including hedge accounting (continued):

The Authority determines whether hedge accounting can be applied when the individual derivative contracts are first established.

During the years presented, no derivative contracts were accounted for under hedge accounting.

### (e) Investments:

The investment purchasing and trading policy of the Authority is to match the maturity of investments with the applicable obligation dates of the related debt.

Investment acquisitions and disposals are recorded as of the trade date. Although investments are typically held to maturity, all investments have been designated as FVOCI and stated at fair value. Any unrealized change in fair value is reflected in accumulated other comprehensive income and subsequently transferred to profit or loss when realized.

Fair values of investments are determined using quoted market prices where available. Where active market prices are not available, fair values are calculated based on discounted cash flow analysis with an incorporation of credit risk as applicable.

### (f) Property and equipment:

#### (i) Recognition and measurement:

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognized net within profit or loss.

#### (ii) Subsequent costs:

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Authority, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

#### (iii) Depreciation:

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

- leasehold improvements                      10 years

Depreciation methods, useful lives, and residual values are reviewed at each financial year end and adjusted if appropriate.

# Notes to the Consolidated Financial Statements continued

## 3. Significant accounting policies (continued)

(g) Impairment:

(i) Financial assets (including receivables):

The Authority recognizes loss allowances for expected credit losses (ECL) on its financial assets. ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

The Authority measures loss allowances at an amount equal to lifetime ECL, except for the following, which are measured as 12-month ECL; financial assets determined to have low credit risk at the reporting date, and financial assets to clients for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition. Financial assets that satisfy these criteria are considered to be in Stage 1. If credit risk has increased significantly since initial recognition but the investment or loan is not credit-impaired, the financial asset would move into Stage 2. Once the financial asset is determined to be credit impaired, it is considered to have moved into Stage 3.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Authority is exposed to credit risk.

### *Measurement of ECLs:*

ECLs are a probability-weighted estimate of credit losses. ECLs are a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment to reflect factors not captured in ECL models.

The PD represents the likelihood that a financial asset will not be repaid and will go into default in either a 12-month horizon for low risk grade or lifetime horizon for identified increased in credit risk. The PD for each individual financial asset is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions.

EAD is modelled on historic data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default.

LGD is the amount that may not be recovered in the event of default and is modelled based on historic data and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held.

Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Authority expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

At each reporting date, the Authority assesses whether financial assets carried at amortized cost and investments at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that the financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the issuer or the borrower
- Breach of contract, such as a default or past due event
- Likelihood of bankruptcy, receivership or other financial reorganization
- The disappearance of an active market for that financial asset because of financial difficulties

# Notes to the Consolidated Financial Statements continued

## 3. Significant accounting policies (continued)

(g) Impairment (continued):

(i) Financial assets (including receivables) (continued):

The Authority assumes that the credit risk on a loan to clients has increased significantly if a principal or interest payment is past due in a calendar year or the client's internal credit rating drops below an acceptable level based on various financial, economic, governance, and institutional factors. Loans to clients are considered credit-impaired when the borrower is unlikely to pay its credit obligations to the Authority in full or a principal or interest payment is between 180 and 365 days past due. A loan is in default when a principal or interest payment is 366 days past due.

The Authority generally requires all investments held within its portfolios to have investment grade credit ratings from a recognized rating agency of BBB or higher. Credit risk on an investment is assumed to have increased significantly in credit risk if the credit rating drops below BBB. A similar approach is taken for Cash and cash equivalents, where if the financial institution that holds the deposits drops below BBB, a significant increase in risk is assumed to have occurred. Investments are considered to be credit-impaired if an obligor is in default or is facing other material adverse change to its credit risk profile. For investments, a default is deemed to have occurred when the obligor fails to pay all or substantially all of its obligations as they come due, including any interest and principal payments.

*Presentation of allowance for ECL in the statement of financial position:*

Loss allowances for financial assets measured at amortized costs are deducted from the gross carrying amount of the assets. For investments at FVOCI, the loss allowance is charged to profit or loss and is recognized in OCI.

*Write-off:*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Authority determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities to comply with the Authority's procedures for recovery of amounts due.

*Prior to January 1, 2018, the Authority used the following accounting policy to measure impairment:*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence is considered to exist when there is a significant or prolonged decline in value.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Authority on terms that the Authority would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security.

The Authority considers evidence of impairment for receivables, including loans to clients, at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

# Notes to the Consolidated Financial Statements continued

## 3. Significant accounting policies (continued)

### (g) Impairment (continued):

#### (i) Financial assets (including receivables) (continued):

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in unrealized gains/losses on available-for-sale financial assets in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between the acquisition cost, net of any principal repayments and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale investment security (excluding equity investments) increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

#### (ii) Non-financial assets:

The carrying amounts of the Authority's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of a non-financial asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized when the carrying amount of a non-financial asset exceeds its estimated recoverable amount.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### (h) Employee future benefits:

The Authority and its employees make contributions to the Municipal Pension Plan. These contributions are expenses as incurred.

### (i) New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2018 and have not been applied in preparing these consolidated financial statements. Those expected to potentially impact the consolidated financial statements of the Authority are as follows:

#### (i) IFRS 16 Leases:

In January 2016, IFRS 16 was issued, which will replace IAS 17 *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard is effective for the year beginning January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. The Authority has one lease agreement for office premises and does not expect the standard to have a material impact on the consolidated financial statements.

# Notes to the Consolidated Financial Statements continued

## 4. Investments

Investments consist of the following debt securities and maturities:

THOUSANDS OF DOLLARS						
	within 1yr	1-3yrs	3-5yrs	over 5yrs	2018	2017
Government of Canada	\$ 10,007	24,857	51,174	51,283	\$ 137,321	\$ 86,841
Provincial governments	53,267	55,316	189,761	2,066,264	2,364,608	2,296,830
Chartered banks	145,524	5,210	20,891	214,625	386,250	532,689
Credit unions	25,319	11,324	5,024	-	41,667	74,416
Local governments	27,737	19,486	11,435	611,667	670,325	721,623
Corporations	-	-	-	-	-	39,481
	\$ 261,854	116,193	278,285	2,943,839	\$ 3,600,171	\$ 3,751,880

Investments in Government of Canada, Provincial governments, and chartered banks may be direct or guaranteed.

The 12-month expected credit loss for investments is \$22,459, the net remeasurement gain is \$5,110, with no transfer to lifetime expected credit losses.

## 5. Short-term loans to clients

Short-term loans represent loans of 1 to 5 years and are provided for under Section 11 of the Act. The Authority offers a revolving credit facility for clients under two programs:

*Equipment Financing Program: short-term funding of capital assets.*

*Short-term Financing Program: tax revenue anticipation, interim funding requirements, and bridge financing of capital projects.*

Short-term loans represents loans receivable for the following purposes:

THOUSANDS OF DOLLARS		
	2018	2017
Tax revenue anticipation	\$ 53	\$ 1,500
Temporary financing of capital projects	199,200	224,869
Short-term capital borrowing	58,709	53,040
	257,962	279,409
Expected credit loss provision	361	-
	\$ 257,601	\$ 279,409

Short-term loans are charged interest based on the daily 30-day Canadian Dollar Offered Rate (CDOR) plus 0.50%. All short-term loans carry a maximum term of 5 years.

The amounts due within one year are \$71,117,944 (2017—\$147,602,197).

The 12-month expected credit loss for short-term loans to clients is \$360,790, the net remeasurement loss is \$290,879, with no transfer to lifetime expected credit losses.

# Notes to the Consolidated Financial Statements continued

## 6. Long-term loans to clients

Long-term loans are initially measured at fair value and subsequently reflected at amortized cost using the effective interest method. Lending rates on loans are fixed for borrowing terms commencing with the initial period of the loan. The Authority conducts an annual evaluation of loan impairment to determine if an impairment writedown is necessary. No impairments have been taken in the current or previous years. A reduction in the carrying value of a loan may be recovered by an offsetting transfer from the Debt Reserve Fund and ultimately through a levy on taxable land and improvements if it is believed that payments under loan agreements may not be recovered within a reasonable time.

The aggregate principal payments recoverable from clients in each of the next five years and aggregated to maturity (excluding principal payments forgiven as outlined in note 13) are as follows:

<i>THOUSANDS OF DOLLARS</i>	
2019	\$ 307,618
2020	291,660
2021	283,575
2022	271,707
2023	258,966
2024 – 2028	974,012
2029 and thereafter	713,451
	\$ 3,100,989

These scheduled principal payments require management to estimate an expected earnings rate on investments (5.00% up to and including Issue 88, 4.00% on issues up to and including Issue 130, 3.50% on issues up to and including Issue 138, and 3.00% thereafter), therefore included in loans to clients are budgeted non-cash actuarial adjustments of \$1,613,987,629. This actuarial adjustment represents the estimated interest income on the investment portfolio for principal payments collected from clients and invested by the Authority until the related debt is retired. As principal payments are received annually the associated actuarial adjustments are credited to the loan balance outstanding.

When the Authority, under Section 14 of the Act and with the approval of the Inspector of Municipalities, has determined that the value of the assets in the sinking fund, together with the anticipated earnings for that fund, is greater than the value which will be required to repay the debt or discharge the obligation and has declared that there is an anticipated surplus in the fund of a specified amount, the scheduled future payments of both principal and interest from clients under the related loan agreements are forgiven.

The 12-month expected credit loss for long-term loans to clients is \$232,753, the net remeasurement loss is \$99, with \$190 transfer to lifetime expected credit losses.

## 7. Property and equipment

Property and equipment represents the net book value of the leasehold improvements on the facilities out of which the Authority operates. The Authority entered into a 10 year lease agreement commencing June 1, 2013 and has incurred leasehold improvements of \$482,875 which is reflected net of accumulated depreciation of the building of \$238,300 (2017 – \$183,700).

# Notes to the Consolidated Financial Statements continued

## 8. Trade and other payables

Trade and other payables consist of:

<i>THOUSANDS OF DOLLARS</i>		
	2018	2017
Interest payable—Long-term debt	\$ 36,051	\$ 34,850
Other payables	419	466
	<u>\$ 36,470</u>	<u>\$ 35,316</u>

## 9. Bank and short-term indebtedness

The Authority operates a commercial paper facility with an authorized limit of \$700 million which allows for the issuance of short-term notes in the name of the Authority of up to 365 days in duration. The program requires secured standby lines of credit from Canadian chartered banks. At year end the Authority had two unutilized standby facilities totaling \$350 million which can only be accessed if the Authority is unable to issue or roll maturing commercial paper. As at year end, the average interest rate on commercial paper issued was 1.89% (2017—1.13%).

The Authority has an agreement under which a chartered bank (the “bank”) provides a revolving credit facility of up to \$100 million. Under that agreement, the Authority may borrow at a daily floating rate based on the prime rate or at negotiated rates for fixed terms up to one year in length. Floating-rate borrowings are subject to repayment within 30 days following demand by the bank while fixed-term borrowings are repayable at maturity. During the year, the Authority did not borrow against the revolving credit facility nor hold any associated floating or fixed term debt at the beginning of the year or at year end.

## 10. Due to clients

At the commencement of each long-term loan, the *Act* requires that each regional district deposit with the Authority: (a) an amount equal to one-half the average annual installment of principal and interest in respect of its own borrowing, and (b) an amount equal to one-half the average annual installment of principal and interest as set out in the borrowing agreements entered into with its member municipalities. Amounts are payable either in full or in an amount equal to 1.00% of the total principal amount borrowed, with the balance secured by a non-interest bearing demand note.

The *Act* requires the Authority to place these deposits into a Debt Reserve Fund whose primary purpose is to provide security for debenture payments to bondholders. If, at any time, the Authority does not have sufficient funds to meet payments or sinking fund contributions due on its obligations, the payments or sinking fund contributions must be made from the Debt Reserve Fund. Once the regional district or member municipalities have made the final payment under their respective loan agreements, then these deposits are repaid to clients.

Scheduled payments to clients in each of the next five years and to the maturity of all loans are as follows:

<i>THOUSANDS OF DOLLARS</i>	
2019	\$ 4,957
2020	2,388
2021	5,091
2022	9,024
2023	4,835
2024 – 2028	40,024
2029 and thereafter	41,167
	<u>\$ 107,486</u>



# Notes to the Consolidated Financial Statements continued

## 10. Due to clients (continued)

The balance held in the Debt Reserve Fund, to be applied to pay amounts Due to clients, is as follows:

<i>THOUSANDS OF DOLLARS</i>		
	2018	2017
Cash	\$ 28,815	\$ 25,645
Accrued interest receivable	129	182
Investments	78,542	82,881
	<b>\$ 107,486</b>	<b>\$ 108,708</b>

Included in Investments are investments of the Debt Reserve Fund:

<i>THOUSANDS OF DOLLARS</i>		
	2018	2017
Government of Canada	\$ 5,254	\$ 13,147
Provincial governments	46,616	42,956
Chartered banks	21,889	21,959
Local governments	4,783	4,819
	<b>\$ 78,542</b>	<b>\$ 82,881</b>

Also integral to the Debt Reserve Fund, but not presented on the consolidated statements of financial position, are Demand Notes Receivable from clients of \$223,357,464 (2017 – \$222,024,933) which are entered into upon commencement of a loan and are callable on demand to meet Authority obligations. Once clients have made the final payment under their respective loan agreements, the demand notes will be extinguished. For financial statement presentation these demand notes receivable have been classified as an offset against Due to clients, reflecting their contingent nature. Throughout the history of the organization, the Authority has never called upon any demand note.

If the Board of Trustees of the Authority is of the opinion that the payments made from the Debt Reserve Fund may not be recovered under the terms of the loan agreements within a reasonable time, they may levy or impose upon substantially all taxable land and improvements in the Province of British Columbia, rates sufficient to maintain the Debt Reserve Fund at a level not exceeding the amount which would have been in the fund had no such payments been made. Further, the Board of Trustees must impose such rates when the balance in the Fund is less than 50% of the amount that would have been in the Fund had no such payments been made.

During the year, the Debt Reserve Fund recognized total revenue of \$2,481,372 (2017 – \$2,241,697) and incurred total expenses of \$80,877 (2017 – \$84,537). Included in accumulated other comprehensive income is an unrealized mark-to-market valuation loss on the investments of \$196,853 (2017 – \$660,353). The Authority's practice is to hold investments until maturity to minimize the impact of fluctuations of market pricing on investment values. The excess of revenue over expenses in the Fund was \$2,597,348 (2017 – \$1,496,807) and is recorded as investment income due to clients.

# Notes to the Consolidated Financial Statements continued

## 11. Derivative contracts

Derivative contracts are forward interest rate swaps, which are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount. These contracts are entered into as devices to control interest rate risk. All derivatives entered into in previous years were settled by December 31, 2018. The notional amount of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows. The Authority had no notional amounts outstanding at year end (2017—\$36,300,000). Notional amounts are not recorded on the consolidated statements of financial position. The credit risk related to derivative contracts is limited to the amount of any adverse change in interest rates applied on the notional contract should the counterparty default. It is the Authority's policy that any loss incurred on the derivative contract is charged to the client, for whom the contract was established thereby passing on the interest and credit risk to the client requesting interest rate certainty.

## 12. Long-term debt

The aggregate long-term debt maturities in each of the next five years and aggregated to maturity are as follows (including provision for early calls by the Authority and redemptions at the option of the bondholder):

THOUSANDS OF DOLLARS		
2019	\$	1,176,071
2020		640,906
2021		1,243,693
2022		808,760
2023		1,521,513
2024 – 2028		2,610,044
2029 and thereafter		52,401
		8,053,388
Transaction costs, net of accumulated amortization		82,265
	\$	8,135,653

Client bylaw terms (up to 30 years) may not coincide with the Authority's debenture terms (typically 5 or 10 years), and therefore many borrowing requests require refinancing. Estimated refinancing over the next five years is dependent on a number of considerations such as maturity date of related long-term loans, investment holdings, estimated future investment income, and estimated future interest rates, among others. The estimated refinancings and current average interest rates associated, are as follows:

THOUSANDS OF DOLLARS		
	Refinancing	Average existing interest rate
2019	\$ 802,000	4.22%
2020	492,000	4.09%
2021	954,000	2.89%
2022	670,000	2.66%
2023	1,307,000	3.09%

# Notes to the Consolidated Financial Statements continued

## 13. Allocations to clients

Allocations to clients comprise the total of surpluses earned (earnings in excess of debenture interest costs) by the investments relating to specific debenture issues that have matured and were distributed back to clients for whom the financing was undertaken. Accruals of investment income due to clients and allocations of net profit to clients, which apply to the Debt Reserve Fund, are shown separately.

During the year, the following amounts were allocated:

<i>THOUSANDS OF DOLLARS</i>			
		2018	2017
Cash surplus repayments	\$	2,417	\$ 2,468
Future invoice payments forgiven		106	–
Actuarial earnings recognized		114,886	116,235
	\$	117,409	\$ 118,703

Included in actuarial earnings recognized is \$38,558,804 (2017 – \$40,279,058) of accrued earnings calculated from the last principal payment dates to December 31, 2018.

## 14. Supplemental cash flow information

During the year, the Authority received the following cash payments:

<i>THOUSANDS OF DOLLARS</i>			
		2018	2017
Interest from clients on long-term loans	\$	245,653	\$ 253,858
Interest from clients on short-term loans		6,227	4,512
Interest from investments		62,646	48,870

During the year, the Authority made the following cash payments:

<i>THOUSANDS OF DOLLARS</i>			
		2018	2017
Interest on long-term debt	\$	262,746	\$ 275,474
Interest on short-term indebtedness		9,991	5,362

The amounts shown on the consolidated statements of comprehensive income are recorded on an accrual basis and may differ from the information presented above on a cash basis.

# Notes to the Consolidated Financial Statements continued

## 15. Financial instruments

### (a) Risk management:

Management is responsible for safeguarding systems, identifying risks, and recommending appropriate policies and framework. The Board of Trustees reviews and approves the risk management policies and associated reporting procedures to enable them to monitor the adherence to these policies.

The Authority has a restrictive investment policy as defined in the *Act* which limits investments to fixed income securities of the Government of Canada and its agencies, Provinces in Canada, local governments in Canada, Canadian chartered banks, and Canadian saving institutions. No equity investments are permitted.

All long-term loans to clients are approved according to Provincial legal and financial requirements and each loan request must be reviewed by the Members of the Authority prior to funding. One percent of each borrowing request must be deposited as a refundable cash contribution and held in the Debt Reserve Fund as security against possible loan default. Furthermore, the Authority has the power to levy a province-wide property tax to meet operational requirements.

### (b) Liquidity risk:

Liquidity risk is the risk that a portfolio may not be able to settle or meet its obligation on time or at a reasonable price.

Each long-term loan request is funded at the time the Authority raises monies in capital markets and the cash flow on debt repayment is matched to the cash flow on loan collections. The Authority monitors cash resources daily and continually reviews future cash flow requirements to ensure obligations are met.

The Authority utilizes a commercial paper facility with an authorized limit of \$700 million, has access to bank demand facilities of \$100 million, and maintains a Debt Reserve Fund which is available to ensure timely payment of its obligations.

#### THOUSANDS OF DOLLARS

December 31, 2018	Carrying amount	Contractual cash flows	6 months or less	6 -12 months	1-2 years	2-5 years	more than 5 years
<i>Non-derivative financial liabilities</i>							
Trade and other payables	\$ 36,470	\$ 36,470	36,470	-	-	-	-
Bank and short-term indebtedness	674,165	674,165	674,165	-	-	-	-
Due to clients	107,486	107,486	1,150	3,807	2,388	18,950	81,191
Long-term debt	8,135,653	9,306,232	1,299,305	119,955	2,276,205	3,112,852	2,497,915
	\$ 8,953,774	\$ 10,124,353	2,011,090	123,762	2,278,593	3,131,802	2,579,106

# Notes to the Consolidated Financial Statements continued

## 15. Financial instruments (continued)

### (b) Liquidity risk (continued):

<i>THOUSANDS OF DOLLARS</i>							
December 31, 2017	Carrying amount	Contractual cash flows	<i>6 months or less</i>	<i>6 -12 months</i>	<i>1-2 years</i>	<i>2-5 years</i>	<i>more than 5 years</i>
<i>Non-derivative financial liabilities</i>							
Trade and other payables	\$ 35,316	\$ 35,316	35,316	-	-	-	-
Bank and short-term indebtedness	699,420	699,420	699,420	-	-	-	-
Due to clients	108,708	108,708	3,169	7,483	4,895	14,823	78,338
Long-term debt	7,642,664	8,687,972	578,758	897,708	2,172,643	2,882,689	2,156,174
<i>Derivative financial liabilities</i>							
Derivative contracts	8,067	-	-	-	-	-	-
	\$ 8,494,175	\$ 9,531,416	1,316,663	905,191	2,177,538	2,897,512	2,234,512

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

### (c) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

Although investments are purchased with the intention to hold to maturity, they are designated as FVOCI. Changes in the fair value of investments have parallel changes in value in equity. Investment trading will only occur if the transaction is within the investing policy and enhances the overall position of the portfolio. Trading is not done on speculation of interest rate changes and investments are not liquidated in response to declines in market prices.

The Authority sets the lending rates on long-term loans at similar levels to the yield realized on debenture issuances such that the cash flow obligations on debentures and loans financed are matched. Any changes in interest rates during the period in which loans and the related debentures are outstanding will have no impact on profit.

At the reporting date, the interest rate profile of the Authority's interest-bearing financial instruments was:

<i>THOUSANDS OF DOLLARS</i>			
	2018	2017	
<i>Fixed rate instruments</i>			
Financial assets	\$ 8,375,237	\$ 8,245,357	
Financial liabilities	(8,250,792)	(7,761,043)	
	\$ 124,445	\$ 484,314	
<i>Variable rate instruments</i>			
Financial assets	\$ 868,486	\$ 598,465	
Financial liabilities	(702,982)	(725,065)	
	\$ 165,504	\$ (126,600)	

# Notes to the Consolidated Financial Statements continued

## 15. Financial instruments (continued)

### (c) Interest rate risk (continued):

#### *Fair value sensitivity analysis for fixed rate instruments*

The Authority does not account for any fixed rate financial assets and liabilities at fair value through profit or loss therefore a change in interest rates at the reporting date would not affect profit or loss.

A 100 basis point change in interest rates would have a parallel change in equity, at the reporting date, by \$2,551,253 (2017 – \$4,291,700).

The Authority does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. A 100 basis point change in interest rates at the reporting date would have an inverse change in profit or loss by \$3,654,742 (2017 – \$4,291,361).

#### *Cash flow sensitivity analysis for variable rate instruments*

A 100 basis point change in interest rates at the reporting date would have an inverse change in profit or loss by \$194,524 (2017 – \$1,572,650). This analysis assumes that all other variables remain constant.

### (d) Credit risk:

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge its obligation or commitment.

The Authority limits its exposure to credit risk associated with investments by restricting the investment portfolio to investment grade (BBB or higher from a recognized rating agency) fixed income-securities with the preservation of capital as the highest priority. On a quarterly basis, all available credit ratings on investment holdings are reviewed by the Authority's Investment Committee and any change in ratings discussed.

The Authority's cash and cash equivalents are held solely with reputable financial institutions. For transactions that engage financial institutions as counterparties, the Authority will only enter in agreements with Schedule I or Schedule II banks with a credit rating of single A or better.

Credit risk on loans to clients is reduced by ensuring that all clients must first comply with provincially imposed financial criteria which define borrowing limits and assess the ability to service new and existing debt. Within each regional district, each member municipality has joint and several obligations for all long-term loans undertaken. The general credit strength of each individual municipality supports the credit worthiness of the Authority.

The Authority uses an internal credit rating model which looks at various financial and economic factors as well as the governance and institutional framework that clients work within. The Authority's Credit Committee regularly monitors global and provincial economic conditions, analyzes the submission of financial records, and assesses regional political issues to determine if there has been a significant increase in risk and to determine an overall internal credit rating.

The following table represents an analysis of the credit quality of financial instruments at amortized cost and FVOCI. It indicates whether assets measured at amortized cost or FVOCI were subject to a 12 month ECL or lifetime ECL allowance and, in the latter case, whether they were credit impaired. The table also details the carrying amount of financial assets, which represents the Authority's maximum exposure to credit risk at the report date.

	Investments	Cash and cash equivalents & Loans to clients		
		Stage 1	Stage 2	Stage 3
Gross carrying amount	\$ 3,655,171	\$ 5,509,823	\$ 485	\$ -
Loss allowance	22	596	-	-
Carrying amount	\$ 3,655,149	\$ 5,509,227	\$ 485	\$ -

In 2018, the loss allowance for financial assets at Stage 2 was \$190.

# Notes to the Consolidated Financial Statements continued

## 15. Financial instruments (continued)

### (e) Other price risk and currency risk:

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices.

All long-term loans and long-term debt are recorded at amortized cost using the effective interest method. Clients that pay out loan obligations prior to maturity must cover all cash flow requirements to that maturity date.

The Authority is not subject to currency risk. The functional currency is the Canadian dollar and all transactions are denominated in Canadian dollars.

### (f) Derivatives:

The Authority has entered into financial agreements to economically hedge investment yields with third-party financial institutions whereby the Authority will make periodic payments in exchange for certain future cash receipts. At year end, the future payments under these contracts due to the Authority are \$98,194,100 (2017 – \$147,494,100). The Authority has made related principal payments towards those contracts of \$48,700,000 (2017 – \$71,084,839). Remaining contractual payments towards the contracts are \$10,469,100 (2017 – \$16,968,152).

### (g) Fair value:

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date. The fair value of a financial instrument on initial recognition is the value of the consideration given or received. Subsequent to initial recognition, financial assets measured at fair value that are quoted in active markets are based on bid prices. For certain investments and derivative contracts where an active market does not exist, fair values are determined using valuation techniques that refer to observable market data, including discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

The table below analyzes financial instruments carried at fair value, by valuation method.

The different levels have been defined as follows:

- 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).

<i>THOUSANDS OF DOLLARS</i>				
	Level 1	Level 2	Level 3	Total
<b>December 31, 2018</b>				
FVOCI financial assets	\$ 3,489,335	\$ 69,576	\$ 41,260	\$ 3,600,171
<b>THOUSANDS OF DOLLARS</b>				
	Level 1	Level 2	Level 3	Total
<b>December 31, 2017</b>				
FVOCI financial assets	\$ 3,584,303	\$ 167,577	\$ –	\$ 3,751,880
Derivative financial liabilities	–	(8,067)	–	(8,067)
	\$ 3,584,303	\$ 159,510	\$ –	\$ 3,743,813

In 2018, there was a transfer of financial instruments from level 2 to level 3.

# Notes to the Consolidated Financial Statements continued

## 15. Financial instruments (continued)

(g) Fair value (continued):

Fair values versus carrying amounts:

The fair values of financial assets and liabilities, together with the carrying amounts shown in the consolidated statement of financial position, are as follows:

<i>THOUSANDS OF DOLLARS</i>				
	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets carried at fair value</b>				
Investments	\$ 3,600,171	\$ 3,600,171	\$ 3,751,880	\$ 3,751,880
<b>Assets carried at amortized cost</b>				
Cash and cash equivalents	\$ 592,367	\$ 592,367	\$ 319,093	\$ 319,093
Accrued interest and other receivables	78,841	78,841	91,763	91,763
Short-term loans to clients	257,601	257,601	279,409	279,409
Long-term loans to clients	4,714,743	5,245,257	4,772,849	5,045,654
	<b>\$ 5,643,552</b>	<b>\$ 6,174,066</b>	<b>\$ 5,463,114</b>	<b>\$ 5,735,919</b>
<b>Liabilities carried at fair value</b>				
Derivative contracts	\$ -	\$ -	\$ (8,067)	\$ (8,067)
<b>Liabilities carried at amortized cost</b>				
Trade and other payables	\$ (36,470)	\$ (36,470)	\$ (35,316)	\$ (35,316)
Bank and short-term indebtedness	(674,165)	(674,165)	(699,420)	(699,420)
Due to clients	(107,486)	(107,486)	(108,708)	(108,708)
Long-term debt	(8,135,653)	(8,346,752)	(7,642,664)	(7,954,806)
	<b>\$ (8,953,774)</b>	<b>\$ (9,164,873)</b>	<b>\$ (8,486,108)</b>	<b>\$ (8,798,250)</b>

The table below classifies the fair value of financial instruments not carried at fair value, by valuation method.

<i>THOUSANDS OF DOLLARS</i>				
	2018		2017	
	Level 1	Level 2	Level 1	Level 2
Accrued interest and other receivables	\$ -	\$ 78,841	\$ -	\$ 91,763
Short-term loans to clients	-	257,601	-	279,409
Long-term loans to clients	-	5,245,257	-	5,045,654
	<b>\$ -</b>	<b>\$ 5,581,699</b>	<b>\$ -</b>	<b>\$ 5,416,826</b>
Trade and other payables	\$ -	\$ (36,470)	\$ -	\$ (35,316)
Bank and short-term indebtedness	(674,165)	-	(699,420)	-
Due to clients	-	(107,486)	-	(108,708)
Long-term debt	-	(8,346,752)	-	(7,954,806)
	<b>\$ (674,165)</b>	<b>\$ (8,490,708)</b>	<b>\$ (699,420)</b>	<b>\$ (8,098,830)</b>



# Notes to the Consolidated Financial Statements continued

## 16. Capital management

The Authority manages its capital, defined as equity and long-term debt, with an objective to safeguard the ability to continue as a going concern, and to preserve investor, creditor, and market confidence while maintaining uninterrupted access to capital markets and bank loan facilities.

The Authority monitors its debt servicing costs and matches those obligations to cash flows arising from the lending of funds with the goal of providing clients with low-cost financing.

The Authority manages its equity by monitoring the excess or deficiency of earnings to budget associated with each long-term loan. At commencement of a loan, the Authority sets a budgeted earnings target (actuarial level) for the expected return on the investment of annual loan repayments. The Authority monitors investment performance and retains the right to adjust actuarial levels as market conditions warrant. Where a deficiency to budget exists, or is projected, the Authority may reduce actuarial levels prospectively thereby increasing annual principal repayment requirements of clients. At the expiry of a loan and the repayment of the associated debenture, any earnings on investments in excess of these budgeted actuarial levels accumulated in retained earnings are to be paid to clients.

Mark to market changes in derivative contracts result in a temporary gain or loss recognized by the Authority in retained earnings until such time as the associated debenture is refinanced, at which time any resulting gains or losses are realized from client loans.

Retained earnings is monitored to assess sufficiency of capital for operations, debt obligation extinguishment, and additional distributions to clients as approved by the Authority.

The Authority has no regulatory or externally imposed capital requirements; however, the bank has imposed certain covenants in connection with the short-term loan facilities. As at December 31, 2018 and 2017, the Authority was in compliance with these covenants.

There were no changes to the approach to capital management during the year.

## 17. Industry segment

The Authority operates in one segment, being the central borrowing agency for the financing of capital requirements of regional districts, regional hospital districts, and municipalities in British Columbia. As at December 31, 2018 and 2017, the Authority has no assets or operations outside of British Columbia.

## 18. Operating Fund

The Act provides for the establishment of an Operating Fund to meet the annual operating budget. In addition to the administration of the financing activities, the Operating Fund receives financial service fees from the Authority's Investments, Pooled Investment Funds (reported on separately), and the Short-term Financing Programs.

Included in the consolidated statement of financial position of the Authority are the following assets and liabilities of the Operating Fund:

<i>THOUSANDS OF DOLLARS</i>		
	2018	2017
Cash and cash equivalents	\$ 3,877	\$ 3,787
Accrued interest and other receivables	23,889	20,734
Property and equipment	245	299
<b>Total assets</b>	<b>\$ 28,011</b>	<b>\$ 24,820</b>
Trade and other payables	\$ 346	\$ 396
Equity	27,665	24,424
<b>Total liabilities and equity</b>	<b>\$ 28,011</b>	<b>\$ 24,820</b>

# Notes to the Consolidated Financial Statements continued

## 18. Operating Fund (continued)

During the year, the Operating Fund recognized total revenue of \$6,224,157 (2017 – \$6,166,255) and incurred total expenses of \$2,984,744 (2017 – \$2,883,338).

The Authority has entered into a lease agreement for office premises expiring June 2023. Estimated annual payments are as follows:

THOUSANDS OF DOLLARS	
2019	\$ 264
2020	264
2021	264
2022	264
2023	131
	\$ 1,187

## 19. Related party transactions

Compensation of key personnel and trustees, including executive management, during the years ended December 31, 2018 and 2017 were as follows:

THOUSANDS OF DOLLARS		
	2018	2017
Compensation	\$ 892	\$ 850

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended December 31, 2018 and 2017.

## 20. Employee future benefit obligations

The Authority and its employees contribute to the Municipal Pension Plan (the “Plan”), a jointly trustee pension plan. A board of trustees, representing Plan members and employees, is responsible for overseeing the management of the Plan, including investment of assets and administration of benefits. The Plan is a multi-employer contributory defined benefit pension plan. Basic pension benefits provided are defined. The Plan has approximately 197,279 active members and approximately 95,290 retired members. Active members include approximately 40,000 contributors from local governments.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of Plan funding. The most recent actuarial valuation of the entire Plan on December 31, 2015 indicated a surplus of \$2,224 million for basic pension benefits. The next valuation will be as at December 31, 2018 with results available later in 2019. The actuary does not attribute portions of the surplus to individual employers. Accordingly the Authority’s participation in the Plan is accounted for as a defined contribution plan with contributions recorded on an accrual basis. In relation to its fourteen employees during the fiscal year, the Authority paid \$142,906 (2017 – \$150,822) for employer contributions and Authority employees paid \$126,146 (2017 – \$120,578) to the Plan. Employer contributions are expected to be consistent in future years with minor increases for inflation and Plan deficits.

## 21. Adoption of New Accounting Standard

On January 1, 2018, the Authority adopted IFRS 9 (2014) *Financial Instruments*. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*.

The nature and effects of the key changes to the Authority’s accounting policies resulting from its adoption of IFRS 9 are summarized below.

As a result of the adoption of IFRS 9, the Authority adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures for 2018 but generally have not been applied to comparative information.

# Notes to the Consolidated Financial Statements continued

## 21. Adoption of New Accounting Standard (continued)

### (a) Classification of financial assets and financial liabilities:

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit and 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. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Authority's accounting policies for financial liabilities.

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

<i>THOUSANDS OF DOLLARS</i>				
Financial Instrument	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost	319,093	319,090
Investments	Available for sale	FVOCI	3,751,880	3,751,852
Accrued interest and other receivables	Loans and receivables	Amortized cost	91,763	91,763
Short-term loans to clients	Loans and receivables	Amortized cost	279,409	279,339
Long-term loans to clients	Loans and receivables	Amortized cost	4,401,677	4,401,444
Trade and other payables	Other financial liabilities	Amortized cost	35,316	35,316
Bank and short term indebtedness	Other financial liabilities	Amortized cost	699,420	699,420
Due to clients	Other financial liabilities	Amortized cost	108,708	108,708
Derivative contracts	Other financial liabilities	FVTPL	8,067	8,067
Long term debt	Other financial liabilities	Amortized cost	7,642,664	7,642,664

### (b) Impairment of financial assets:

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to the Authority's loans to clients and cash and cash equivalents measured at amortized cost and investments measured at FVOCI. Under IFRS 9, credit losses are recognized earlier than previously recognized under IAS 39.

### (c) Transition:

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except that comparative periods have not been restated.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which financial assets are held.
- If a financial asset had a low credit risk at the date of initial application of IFRS 9, then the Authority assumed that the credit risk on the financial asset had not increased significantly since its initial recognition.

The Authority calculated the amount of expected credit losses to be recognized under IFRS 9 on January 1, 2018 and the adjustment to opening equity on adoption of IFRS 9 was a reduction of \$306,092.

### (d) IFRS 15 Revenue from contracts with customers:

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 1 Construction Contracts and related interpretations. The Authority has determined no material impact to their significant revenue streams as the IFRS 15 scope does not include financial instruments and other contractual rights and obligations, which fall under the scope of IFRS 9 Financial Instruments.

# Schedule of Long-term Debt

Unaudited—for information purposes only

THOUSANDS OF DOLLARS					
CUSIP / ISSUE	YEAR OF ISSUE	MATURITY DATE	INTEREST RATE PERCENT		ORIGINAL AMOUNT
Issued by the Authority:					
626209JD3	2008	April 23, 2018	4.600	\$	440,000
62620DAB7	2016	November 08, 2018	0.950		50,000
626209JF8	2008	November 20, 2018	5.100		400,000
626209JM3	2013	December 03, 2018	2.350		320,000
626209JN1	2014	June 02, 2019	2.050		530,000
626209JG6	2009	June 03, 2019	4.875		630,000
62620DAA9	2010	June 01, 2020	4.450		435,000
626209AE0	2015	October 15, 2020	1.750		190,000
626209JQ4	2016	April 19, 2021	1.650		515,000
626209JH4	2011	June 01, 2021	4.150		710,000
626209JK7	2012	June 01, 2022	3.350		290,000
62620DAD3	2017	December 01, 2022	2.150		500,000
62620DAE1	2018	April 23, 2023	2.600		410,000
626209JL5	2013	September 26, 2023	3.750		485,000
62620DAG6	2018	December 03, 2023	2.800		605,000
626209JP6	2014	October 14, 2024	2.950		335,000
626209HG8	2004	December 02, 2024	5.350		50,000
626209HV5	2005	April 06, 2025	4.978		118,300
626209AD2	2015	October 02, 2025	2.650		125,000
626209HX1	2005	April 02, 2026	4.600		50,000
626209JR2	2016	April 19, 2026	2.500		610,000
626209JC5	2007	December 01, 2027	4.950		670,000
62620DAF8	2018	October 23, 2028	3.050		725,000
62620DAC5	2017	January 19, 2042	3.505		61,250
113	2011	March 25, 2021	3.560		2,300
			<i>carried forward</i>	\$	9,256,850

DECEMBER 31, 2018 LONG-TERM DEBT OUTSTANDING		DECEMBER 31, 2017 LONG-TERM DEBT OUTSTANDING		REFERENCES
\$	-	\$	440,000	(1)
	-		50,000	(1)
	-		400,000	(1)
	-		320,000	(1)
	530,000		530,000	(1)
	630,000		630,000	(1)
	435,000		435,000	(1)
	190,000		190,000	(1)
	515,000		515,000	(1)
	710,000		710,000	(1)
	290,000		290,000	(1)
	500,000		500,000	(1)
	410,000		-	(1)
	485,000		485,000	(1)
	605,000		-	(1)
	335,000		335,000	(1)
	50,000		50,000	(1)
	51,701		58,288	(1)
	125,000		125,000	(1)
	50,000		50,000	(1)
	610,000		610,000	(1)
	670,000		670,000	(1)
	725,000		-	(1)
	61,250		61,250	(1)
	2,300		2,300	(1) (2)
\$	7,980,251	\$	7,456,838	

# Schedule of Long-term Debt

Unaudited—for information purposes only

THOUSANDS OF DOLLARS				
ISSUE	YEAR OF ISSUE	MATURITY DATE	INTEREST RATE PERCENT	ORIGINAL AMOUNT
			<i>brought forward</i>	\$ 9,256,850
Transferred from the Province of British Columbia:				
517 / 624	1999	November 30, 2023	7.875	4,561
Issued through the Federation of Canadian Municipalities:				
107	2009	October 30, 2019	1.920	1,492
109	2010	January 29, 2020	1.830	500
119	2012	June 26, 2022	1.750	3,374
120	2012	June 29, 2022	0.300	2,000
125	2013	May 30, 2023	2.000	4,000
132	2015	June 12, 2025	2.250	7,408
134	2015	October 14, 2025	2.250	10,000
136	2015	November 30, 2025	2.250	4,629
144	2018	April 10, 2028	3.410	837
108	2009	November 16, 2029	2.230	1,769
128	2014	November 16, 2029	1.030	1,770
122	2012	November 01, 2032	2.000	1,999
123	2013	March 28, 2033	2.000	3,142
129	2014	July 31, 2034	2.000	10,000
135	2015	November 20, 2035	3.000	1,000
138	2016	September 01, 2036	2.000	10,000
				63,920
Issued through the Canada Mortgage and Housing Corporation:				
111	2010	October 01, 2025	3.350	10,187
114	2011	March 29, 2026	3.650	15,920
115	2011	March 29, 2031	3.890	10,200
				36,307
Debt due to bondholders				\$ 9,361,638
Unamortized premiums and discounts:				
Long-term debt				

DECEMBER 31, 2018 LONG-TERM DEBT OUTSTANDING		DECEMBER 31, 2017 LONG-TERM DEBT OUTSTANDING		REFERENCES
\$	7,980,251	\$	7,456,838	
	4,561		4,561	(1) (3)
	1,492		1,492	(1) (4)
	75		125	(1) (4)
	1,181		1,518	(1) (4)
	2,000		2,000	(1) (4)
	1,800		2,200	(1) (4)
	4,815		5,556	(1) (4)
	7,000		8,000	(1) (4)
	3,241		3,703	(1) (4)
	795		-	(1) (4)
	998		1,089	(1) (4)
	1,256		1,370	(1) (4)
	1,399		1,499	(1) (4)
	2,278		2,435	(1) (4)
	8,000		8,500	(1) (4)
	850		900	(1) (4)
	9,000		9,500	(1) (4)
	46,180		49,887	
	5,379		6,053	(1) (5)
	9,544		10,556	(1) (5)
	7,473		7,908	(1) (5)
	22,396		24,517	
	8,053,388		7,535,803	
	82,265		106,861	
\$	8,135,653	\$	7,642,664	

# References to Schedule of Long-term Debt

DECEMBER 31, 2018 AND 2017

1. Non-callable prior to maturity.
2. Community Bond.
3. Debenture issues, relating to the Regional Hospital Districts, transferred from the Province of British Columbia to the Authority under a defeasance agreement dated March 31, 1999. The debt outstanding remains in the name of the Province.
4. Debentures issued through the Federation of Canadian Municipalities and administered by the Authority.
5. Debentures issued through the Canada Mortgage and Housing Corporation and administered by the Authority.



# Schedule of Long-term Loans to Clients

Unaudited—for information purposes only

THOUSANDS OF DOLLARS						
	BALANCE OUTSTANDING 2017	NEW LOANS	LOANS REPAID	BALANCE OUTSTANDING 2018	PRINCIPAL TO BE REPAID 2018	PRINCIPAL TO BE REPAID 2017
REGIONAL DISTRICTS					(Note a)	
Alberni-Clayoquot	\$ 20,893	492	874	\$ 20,511	\$ 11,581	11,850
Bulkley-Nechako	9,727	1,000	728	9,999	6,665	6,472
Capital	285,521	30,172	29,133	286,560	189,268	188,176
Cariboo	37,867	-	2,898	34,969	22,530	24,592
Central Coast	120	-	23	97	34	42
Central Kootenay	53,953	283	4,060	50,176	28,138	30,697
Central Okanagan	162,071	1,408	23,391	140,088	90,925	105,901
Columbia Shuswap	54,271	4,529	3,617	55,183	30,658	29,761
Comox Valley	30,912	-	3,687	27,225	15,230	17,584
Cowichan Valley	48,665	1,010	3,483	46,192	30,780	32,605
East Kootenay	45,875	17,392	4,901	58,366	38,007	28,663
Fraser Valley	74,835	4,140	4,949	74,026	41,101	41,436
Fraser-Fort George	81,856	1,492	9,145	74,203	49,633	54,965
Kitimat-Stikine	26,381	3,530	1,257	28,654	20,114	18,440
Kootenay Boundary	43,421	332	2,320	41,433	25,481	27,011
Metro Vancouver (Note b)	1,938,781	404,775	188,537	2,155,019	1,446,180	1,257,167
Mount Waddington	2,369	-	157	2,212	1,285	1,399
Nanaimo	94,799	10,086	6,504	98,381	62,863	60,404
North Coast	14,066	1,500	861	14,705	8,851	8,368
North Okanagan	96,932	2,300	9,264	89,968	55,335	59,692
Northern Rockies	29,392	-	1,091	28,301	15,825	16,646
Okanagan-Similkameen	85,427	950	7,965	78,412	46,979	51,810
Peace River	95,533	1,087	7,848	88,772	55,382	60,485
qathet	11,590	203	581	11,212	5,990	6,237
Squamish-Lillooet	51,677	2,619	4,714	49,582	30,661	32,047
Strathcona	4,690	6,342	532	10,500	7,844	3,514
Sunshine Coast	29,779	1,784	3,294	28,269	19,137	20,229
Thompson-Nicola	122,023	2,208	11,076	113,155	78,083	85,113
OTHER						
CREST	24,485	-	3,148	21,337	17,197	19,853
E-COMM	79,408	-	13,160	66,248	39,816	49,399
TransLink	172,544	-	17,584	154,960	88,992	101,552
Regional Hospital Districts (page 48)	571,814	225,911	41,463	756,262	520,425	370,132
Expected credit losses	-	-	-	(234)	-	-
	\$ 4,401,677	725,545	412,245	\$ 4,714,743	\$ 3,100,990	2,822,242

Note a: The Authority finances borrowing requests through the issuance of bullet debentures. Clients discharge their loan obligations with annual principal repayments which are invested until the maturity date of the associated financing debenture. The Authority budgets to earn a specified return on these investments and annually credits the clients' loan balances with this amount. The difference between the Principal Outstanding of \$4,714,743,000 and the Principal To Be Repaid of \$3,100,990,000 represents expected future earnings by the Authority.

Note b: Included in the Metro Vancouver loan balance outstanding are borrowings of the region's transportation authority (TransLink) in the amount of \$434,144,656 (2017—\$490,125,316) which are in the name of and administered through the Metro Vancouver Regional District. Direct borrowings of TransLink are shown under OTHER loan balances. Both loans portfolios are joint and several obligations of the underlying municipalities within the Metro Vancouver Regional District.

# Schedule of Long-term loans to Regional Hospital Districts

Unaudited—for information purposes only

THOUSANDS OF DOLLARS						
	BALANCE OUTSTANDING 2017	NEW LOANS	LOANS REPAID	BALANCE OUTSTANDING 2018	PRINCIPAL TO BE REPAID 2018	PRINCIPAL TO BE REPAID 2017
REGIONAL HOSPITAL DISTRICTS						
Alberni-Clayoquot	\$ 3,771	-	1,045	\$ 2,726	\$ 1,262	1,755
Capital	192,450	1,468	18,645	175,273	137,961	150,068
Central Okanagan	94,518	-	5,165	89,353	54,085	58,139
Comox-Strathcona	322	89,899	83	90,138	78,550	197
Cowichan Valley	438	-	75	363	197	237
Fraser Valley	37,591	-	3,041	34,550	19,452	21,517
Fraser-Fort George	7,203	-	1,199	6,004	2,733	3,322
Kootenay East	1,082	-	104	978	650	731
Mount Waddington	750	505	148	1,107	717	345
Nanaimo	27,374	1,867	1,778	27,463	17,760	17,788
North Okanagan/Columbia-Shuswap	65,884	3,384	2,923	66,345	36,378	35,844
North West	33,499	-	2,118	31,381	20,220	21,765
Okanagan-Similkameen	472	-	130	342	155	215
Peace River	71,120	-	2,579	68,541	34,431	36,316
Powell River	19,944	-	869	19,075	12,013	12,764
Sea to Sky	5,075	-	346	4,729	2,736	2,985
Sunshine Coast	8,943	-	763	8,180	4,530	5,040
Thompson	-	128,788	-	128,788	95,859	-
West Kootenay-Boundary	1,378	-	452	926	736	1,104
	<u>\$ 571,814</u>	<u>225,911</u>	<u>41,463</u>	<u>\$ 756,262</u>	<u>\$ 520,425</u>	<u>370,132</u>



# Five-Year Review

Unaudited—for information purposes only

THOUSANDS OF DOLLARS	2018		2017	
<b>ASSETS</b>				
Cash and cash equivalents	\$	592,367	\$	319,093
Investments		3,600,171		3,751,880
Accrued interest and other receivables		78,841		91,763
Short-term loans to clients		257,601		279,409
Long-term loans to clients		4,714,743		4,401,677
Property and equipment		245		299
<b>Total Assets</b>	<b>\$</b>	<b>9,243,968</b>	<b>\$</b>	<b>8,844,121</b>
<b>LIABILITIES AND EQUITY</b>				
Trade and other payables	\$	36,470	\$	35,316
Bank and short-term indebtedness		674,165		699,420
Due to clients		107,486		108,708
Derivative contracts		–		8,067
Long-term debt		8,135,653		7,642,664
<b>Total Liabilities</b>		<b>8,953,774</b>		<b>8,494,175</b>
Equity		290,194		349,946
<b>Total Liabilities and Equity</b>	<b>\$</b>	<b>9,243,968</b>	<b>\$</b>	<b>8,844,121</b>
<b>REVENUE</b>				
Interest from loans to clients	\$	252,990	\$	260,430
Investment income		139,771		137,158
Amortization of premiums on long-term debt		16,748		19,036
Financial service fees		2,252		2,442
Recoveries from new issues		8		–
Operating levy		412		371
<b>Total Revenue</b>		<b>412,181</b>		<b>419,437</b>
<b>EXPENSE</b>				
Interest on long-term debt		263,946		276,768
Interest on bank and short-term indebtedness		10,308		5,451
Administration		3,182		3,074
Investment income due to clients		2,597		1,497
Impairment loss on investments and loans to clients		285		–
Debt management and marketing		112		110
Loss (gain) from change in fair value of derivative contracts		29		(574)
<b>Total Expense</b>		<b>280,459</b>		<b>286,326</b>
Profit for the year		131,722		133,111
Equity, beginning of the year		349,946		272,223
Adjustment on initial application of IFRS 9		(306)		–
Allocations to clients		(117,409)		(118,703)
Unrealized gains (losses) from change in fair value of available-for-sale investments		(73,755)		63,315
Net remeasurement on loss allowance		(4)		–
<b>Equity, end of the year</b>	<b>\$</b>	<b>290,194</b>	<b>\$</b>	<b>349,946</b>

	2016		2015		2014
	\$ 203,619		\$ 140,220		\$ 70,404
	3,613,272		3,305,574		3,006,309
	83,799		79,259		72,934
	318,188		303,158		239,121
	4,288,088		4,299,992		4,376,473
	354		250		262
	\$ 8,507,320		\$ 8,128,453		\$ 7,765,503
	\$ 34,082		\$ 35,864		\$ 36,046
	699,676		549,779		499,699
	107,910		107,642		104,204
	20,040		102,827		93,565
	7,373,389		7,020,403		6,732,257
	8,235,097		7,816,515		7,465,771
	272,223		311,938		299,732
	\$ 8,507,320		\$ 8,128,453		\$ 7,765,503
	\$ 263,378		\$ 268,206		\$ 276,250
	133,227		119,767		108,876
	12,078		7,930		7,009
	2,415		2,278		2,316
	8		1,739		2,047
	295		264		251
	411,401		400,184		396,749
	269,006		274,238		275,999
	3,867		3,759		5,229
	3,372		3,229		2,891
	1,351		3,562		9,603
	-		-		-
	105		123		133
	12,545		24,265		58,769
	290,246		309,176		352,624
	121,155		91,008		44,125
	311,938		299,732		90,501
	-		-		-
	(112,146)		(102,772)		(103,730)
	(48,724)		23,970		268,836
	-		-		-
	\$ 272,223		\$ 311,938		\$ 299,732

# Bond Issues

Unaudited—for information purposes only

## CANADIAN DOLLAR BONDS ISSUED IN CANADA

CUSIP / ISSUE	DESCRIPTION	DATED	AUTHORIZED \$(000)	OUTSTANDING DECEMBER 31, 2018 \$(000)	INTEREST
626209JN1	2.050% Debentures due June 02, 2019	June 02, 2014	530,000	530,000	Semi-annual June 02 December 02
626209JG6	4.875% Debentures due June 03, 2019	April 21, 2009	630,000	630,000	Semi-annual June 03 December 03
62620DAA9	4.450% Debentures due June 01, 2020	April 08, 2010	435,000	435,000	Semi-annual June 01 December 01
626209AE0	1.750% Debentures due October 15, 2020	October 15, 2015	190,000	190,000	Semi-annual April 15 October 15
626209JQ4	1.650% Debentures due April 19, 2021	March 01, 2016	515,000	515,000	Semi-annual April 19 October 19
626209JH4	4.150% Debentures due June 01, 2021	April 04, 2011	710,000	710,000	Semi-annual June 01 December 01
626209JK7	3.350% Debentures due June 01, 2022	April 11, 2012	290,000	290,000	Semi-annual June 01 December 01
62620DAD3	2.150% Debentures due December 01, 2022	December 01, 2017	500,000	500,000	Semi-annual June 01 December 01
62620DAE1	2.600% Debentures due April 23, 2023	April 23, 2018	410,000	410,000	Semi-annual April 23 October 23
626209JL5	3.750% Debentures due September 26, 2023	September 26, 2013	485,000	485,000	Semi-annual March 26 September 26
62620DAG6	2.800% Debentures due December 03, 2023	December 03, 2018	605,000	605,000	Semi-annual June 03 December 03

Bond Issues: All fully registered in denominations of \$1,000 and multiples thereof, non-callable, non-retractable, non-extendable, and without sinking fund provisions.

# Bond Issues

Unaudited—for information purposes only

## CANADIAN DOLLAR BONDS ISSUED IN CANADA

CUSIP / ISSUE	DESCRIPTION	DATED	AUTHORIZED \$(000)	OUTSTANDING DECEMBER 31, 2018 \$(000)	INTEREST
626209JP6	2.950% Debentures due October 14, 2024	October 14, 2014	335,000	335,000	Semi-annual April 14 October 14
626209HG8	5.350% Debentures due December 02, 2024	October 25, 2004	50,000	50,000	Semi-annual June 02 December 02
626209HV5	4.978% Amortizing Debentures due April 06, 2025	April 06, 2005	118,300	51,701	Semi-annual April 06 October 06
626209AD2	2.650% Debentures due October 02, 2025	October 02, 2015	125,000	125,000	Semi-annual April 02 October 02
626209HX1	4.600% Debentures due April 02, 2026	October 13, 2005	50,000	50,000	Semi-annual April 02 October 02
626209JR2	2.500% Debentures due April 19, 2026	April 19, 2016	610,000	610,000	Semi-annual April 19 October 19
626209JC5	4.950% Debentures due December 01, 2027	November 01, 2007	670,000	670,000	Semi-annual June 01 December 01
62620DAF8	3.050% Debentures due October 23, 2028	April 23, 2018	725,000	725,000	Semi-annual April 23 October 23
62620DAC5	3.505% Amortizing Debentures due January 19, 2042	January 19, 2017	61,250	61,250	Semi-annual January 19 July 19
113	3.560% Debentures due March 25, 2021	March 25, 2011	2,300	2,300	Semi-annual March 25 September 25

Registrar and Transfer Agent:

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320 Bay Street, Toronto Ontario, Canada M5H 4A6  
520 -1130 West Pender Street, Vancouver, British Columbia, Canada V6E 4A4

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## MUNICIPAL FINANCE AUTHORITY OF BRITISH COLUMBIA

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Monday through Friday

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Municipal Finance Authority of BC