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Annual Report

Municipal Finance Authority of BC

Contents

Message from the Chair

Governance

The Municipal Finance Authority of British Columbia (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, we provide access to the lowest borrowing costs together with a suite of low-cost investment products tailored for municipal reserve managers. As Chair, I was pleased to have worked with Vice-Chair Al Richmond (Cariboo Regional District) and re-elected Trustees Rob Gay (Regional District of East Kootenay) and Ron Toyota (Regional District of Central Kootenay). I welcomed newly-elected Trustees Jonathan Coté, Jack Froese, Brad West (Metro Vancouver), Geoff Young (Capital Regional District), Andy Adams (Strathcona Regional District), and Lyn Hall (Regional District of Fraser-Fort George). 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.

We provide capital financing for regional districts and member municipalities through the issuance of securities at a low cost in the institutional capital markets. In 2019, we issued over $1.2 billion of long-term securities and $4.7 billion of short-term securities in the capital markets and we continue to provide the lowest municipal borrowing rates in Canada for all local governments in British Columbia, regardless of loan or community size.

Credit Ratings

In 2019, 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 to 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 2019, we began the development of several pooled fund products for introduction in 2020 including a commercial mortgage fund and a fossil fuel free bond fund.

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 $168,000 in 2019 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 staff for their continued hard work and commitment. In 2019, we executed on our expected hiring plan which has reduced operational risks at the organization while providing us more capacity to service our customers.

MALCOLM BRODIE *Chair*

Trustees and Members

BOARD OF TRUSTEES*

The Board of Trustees provides oversight of policy, strategy, and business plans, and exercises executive and administrative powers and duties, including the selection of the secretary-treasurer.

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	J. McNabb
Bulkley-Nechako	G. Thiessen
Capital	S. Brice
Capital	G. Young*
Cariboo	A. Richmond*
Central Coast	S. Schooner
Central Kootenay	R. Toyota*
Central Okanagan	G. Given
Columbia Shuswap	R. Martin
Comox Valley	E. Grieve
Cowichan Valley	A. Siebring
East Kootenay	R. Gay*
Fraser-Fort George	L. Hall*
Fraser Valley	H. Braun
Fraser Valley	J. Lum
Kitimat-Stikine	G. McKay
Kootenay Boundary	R. Russell
Metro Vancouver	M. Brodie*
Metro Vancouver	L. Buchanan
Metro Vancouver	J. Coté*
Metro Vancouver	J. Froese*
Metro Vancouver	G. Harvie
Metro Vancouver	M. Hurley
Metro Vancouver	D. McCallum
Metro Vancouver	K. Stewart
Metro Vancouver	R. Stewart
Metro Vancouver	B. West*
Mount Waddington	D. Dugas
Nanaimo	J. Turley
North Coast	B. Pages
North Okanagan	A. Shatzko
Northern Rockies	D. Soles
Okanagan-Similkameen	K. Kozakevich
Peace River	D. Rose
qathet	P. Brabazon
Squamish-Lillooet	T. Rainbow
Strathcona	A. Adams*
Sunshine Coast	L. Pratt
Thompson-Nicola	L. Brown

Message from the Chief Executive Officer

Results

Our strategic retention fund increased to $83.6 million by the end of 2019 - a $10.5 million increase from 2018. This was accomplished by a combination of income from operations of $3.1 million, earnings on investments of $3.2 million, and short-term debt fund earnings of $4.2 million.

Capital Adequacy

In September 2019, the Board of Trustees adopted a policy and framework outlining a target for on-balance sheet risk capital, the retention of operating surplus, and the ongoing management of capital. This formal capital policy will allow stakeholders to compare MFA to financial organizations around the world and, when compared to our long history of zero credit losses, highlights our conservative and low risk footprint.

Wholesale Borrowing Programs and Lending

Our long-term borrowing program raised $1.2 billion comprised of $800 million raised in one 5-year issue and $405 million raised in two 10.5-year issues with the 5 year issuance being the largest municipal bond tranche in Canadian history.

Long-term loan growth in 2019 was modestly down by $23 million from 2018, 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 $565 million of commercial paper outstanding at year end and just under $5 billion refinanced in the money markets in 2019. 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 2.44% and 2.81% throughout 2019. We had 459 short-term loans outstanding to local governments in BC at the end of 2019, averaging $480,000 in size.

Safest Municipal Issuer in Canada for Investors

Ensuring customers have stable access to debt financing regardless of market conditions is a critical role that our organization plays. Our positioning strategy with investors is to promote the MFA as the best AAA credit in the municipal and public infrastructure funding agency spaces. We focus our borrowing program on creating large benchmark securities and promoting active secondary trading of 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 reliable access to borrowing in the capital markets, even in volatile market conditions.

Assets Under Management

Total assets exceeded $9.4 billion at the end 2019 up from $9.2 billion in 2018. I invite you to review the annual report for more details.

Pooled Investment Funds

Our pooled investment funds ended the year at close to $3.2 billion in assets, up about $430 million from 2018. We actively pursued many new ideas for new pooled fund offerings with our clients in 2019, including socially responsible fund options. We were very pleased to introduce our latest pooled fund product – a pooled Mortgage Fund, that allows access to first charge commercial mortgages and provides higher yields than many other investment options available to local governments.

Message from the Chief Executive Officer

Technology Investment

Leveraging technology is key to increasing efficiency and capacity and we view digital tools as essential to the future of service delivery for us. In 2020, we are making a significant investment in our digital platforms to facilitate client transactions, increase platform stability and reporting capabilities, expand information access, and create increased system security. A comprehensive cybersecurity plan is critical for any organization, and we recognize that a strong security posture is paramount for both financial institutions like the MFA and our local government clients. We expect to have fully implemented our "Defensible Cybersecurity" plan by the end of 2020 and will be sharing our experiences and approach with interested clients, who can leverage our significant work in this space.

Employees—Our Most Important Asset

Our 15-member professional team is responsible for operations, financing, lending, and investing. In 2019, we grew our staff complement with a focus on technology and client services. The additional capacity will allow us to build on our core products, enhance our client experience and service delivery, and create greater value for BC taxpayers.

PETER URBANC *Chief Executive Officer*

Financial Statements and Related Reports

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SCHEDULES

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 2019 fiscal year and should be read in conjunction with the 2019 audited 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 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, a bond fund, and a mortgage fund (available in 2020). The funds are reported on separately and are not included in the audited financial statements or annual report.

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 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.

Management Discussion and Analysis continued

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.

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

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, 2019; **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, 2019; **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 2019 $1,205 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 $170 million of a new 10.5-year debenture with a coupon of 2.55% and a yield of 2.568%, dated October 9, 2029. At the time of this issue, the Government of Canada 10-year benchmark was yielding 1.698% while other comparable municipal issuers were returning a yield in the range of 2.75% - 2.90%.

June: Issued $800 million of a new 5-year debenture with a coupon of 2.15% and a yield of 2.182%, dated June 3, 2024. At the time of this issue, the Government of Canada 5-year benchmark was yielding 1.642% while other comparable municipal issuers were returning a yield in the range of 2.30% - 2.45%.

October: Issued an additional $235 million of the 2.55% October 9, 2029 debenture with a yield of 2.116% bringing the total outstanding to $405 million. At the time of this reopening, the Government of Canada 10-year benchmark was yielding 1.336% while other comparable municipal issuers were returning a yield in the range of 2.70% - 2.85%.

As well during the year a total of $4.7 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

CAPITAL ADEQUACY

The MFA has no authorized or issued share capital and has no externally imposed capital requirements. Since inception, the MFA has never experienced a loan or investment default and therefore has never had to access its capital.

The Strategic Retention Fund ($84 million) and Debt Reserve Fund ($111 million) collectively comprise total capital ($195 million as at December 31, 2019). Capital is raised through operating profits earned or via the replenishment of the Debt Reserve Fund through taxation.

On-balance sheet risk capital targets for financial institutions is a formal requirement of financial regulatory bodies around the world. Capital is needed to absorb credit or other losses at the financial institution providing protection to investors.

The MFA has self imposed the following requirements on itself. The Capital Adequacy Model targets a capital level for the greater of a non-risk capital assessment and a risk based capital assessment:

	2019	2018
NON-RISK BASED CAPITAL ASSESSMENT		
Capital Leverage Ratio:		
Target %	2.00%	2.00%
Target Level	**$187 million**	**$185 million**
Current %	2.08%	2.00%
Current Level	**$195 million**	**$181 million**
RISK BASED CAPITAL ASSESSMENT		
Part A - Capital Adequacy Ratio:		
Target %	9.00% to 11.00%	9.00% to 11.00%
Current %	9.72%	9.65%
Current Level	$165 million	$170 million
Part B - Key Internal Risk:		
Investment Return Risk	$2 million	$2 million
Long-term Debt Refinancing Risk	$4 million	$4 million
Target Level (Part A + Part B)	**$171 million**	**$176 million**

The MFA currently holds adequate capital given the riskiness of the assets held. Capital of $195 million is held versus a risk-based capital requirements assessment of $171 million. Further, the MFA is just above the self imposed non-risk based minimum capital leverage ratio of 2% or $187 million, which helps ensure a liquidity coverage ratio of 1.0 times is maintained.

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.

Liquidity Risk

Liquidity risk is the risk that the MFA 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 an adequate liquid capital base ($195 million as at December 31, 2019), ensuring access to a $100 million bank facility, and actively participating in the commercial paper market. A term facility of $350 million is maintained to backstop the commercial paper program if we are unable to issue or roll commercial paper, but may be accessed for general corporate purposes if required. Under the Capital Adequacy Model, the MFA targets capital to maintain a Liquidity Ratio of 1.0 times to service a full year of interest expense when the $100 million bank facility is included.

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.

Credit Risk

Credit risk is the risk of loss due to a client failing to meet its obligations or an issuer of a debt security the MFA has invested in fails to remit its interest or principal when scheduled. 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, assesses regional political issues, and analyzes the submission of the clients' financial records. The MFA limits its exposure to credit risk associated with investments by diversifying its portfolio and restricting holdings to investment grade (BBB or higher) fixed income securities.

Management Discussion and Analysis continued

RISK MANAGEMENT (continued)

Refinancing Risk
Refinancing risk is the risk related to refinancing debentures as the obligation comes due. The MFA has experienced uninterrupted access to the capital markets even during stressed scenarios. The MFA manages the risk of not being able to issue a debenture for the purpose of refinancing existing debt by retaining access to repurchase agreements with three Schedule I banks to backstop any potential risk arising from timing of debenture refinancing. Further, a diversified funding strategy is pursued by cultivating a broad domestic and international investor base.

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 2019, total revenue amounted to $409 million against total expense of $277 million for an annual profit of $132 million.

During the year, clients were allocated $110 million consisting of surplus payments, forgiven loan repayments, and actuarial adjustments.

Management Report

The 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 financial statements have been properly prepared within the framework of the accounting policies summarized in the financial statements and incorporate, within reasonable limits of materiality, all information available as at March 26, 2020.

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 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 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 monitors management's responsibility for financial reporting and internal controls. The Board meets with the external auditors and management to satisfy itself that each group has properly discharged its responsibility to review the 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

Chief Financial Officer
Victoria, British Columbia, Canada

Independent Auditors' Report

To the Members of the Municipal Finance Authority of British Columbia

Opinion

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

- the statements of financial position as at December 31, 2019 and December 31, 2018
- the statements of comprehensive income for the years then ended
- the statements of changes in equity for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accounting policies
  (*Hereinafter referred to as the "financial statements"*).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2019 and December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' 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 ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained 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 included in the "Annual Report" 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 the 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.

KPMG LLP

Chartered Professional Accountants

March 26, 2020
Victoria, British Columbia, Canada

Statements of Financial Position

AS AT DECEMBER 31

THOUSANDS OF DOLLARS		2019		2018
ASSETS				
Cash and cash equivalents	$	737,334	$	592,367
Investments (Note 4)		3,621,942		3,600,171
Accrued interest and other receivables		83,679		78,841
Short-term loans to clients (Note 5)		221,965		257,601
Long-term loans to clients (Note 6)		4,691,610		4,714,743
Property and equipment (Note 7)		1,528		245
Total Assets	$	9,358,058	$	9,243,968
LIABILITIES				
Trade and other payables (Note 8)	$	36,186	$	36,470
Bank and short-term indebtedness (Note 9)		564,278		674,165
Lease liability		1,363		–
Due to clients (Note 10)		110,947		107,486
Long-term debt (Note 11)		8,153,217		8,135,653
Total Liabilities		8,865,991		8,953,774
EQUITY				
Accumulated other comprehensive income		421,549		241,748
Retained earnings		70,518		48,446
Total Equity		492,067		290,194
Total Liabilities and Equity	$	9,358,058	$	9,243,968

The notes on pages 24 to 43 are an integral part of these financial statements

Matthew O'Rae, MBA, CPA, CA

Chief Financial Officer
Victoria, British Columbia, Canada

Statements of Comprehensive Income

FOR THE YEARS ENDED DECEMBER 31

THOUSANDS OF DOLLARS	2019	2018
REVENUE		
Interest from loans to clients	$ 244,136	$ 252,990
Investment income	141,113	139,771
Amortization of premiums on long-term debt	21,082	21,573
Financial service fees	2,308	2,252
Recoveries from new issues	8	8
Operating levy	435	412
Total Revenue	409,082	417,006
EXPENSE		
Interest on long-term debt	253,662	263,946
Interest on bank and short-term indebtedness	10,842	10,308
Interest on lease liability	42	–
Amortization of discounts on long-term debt	4,549	4,825
Administration	3,390	3,182
Investment income due to clients (Note 10)	4,710	2,597
Impairment (gain) loss on investments and loans to clients	(109)	285
Debt management and marketing	122	112
Loss from change in fair value of derivative contracts	–	29
Total Expense	277,208	285,284
Profit for the year	131,874	131,722
OTHER COMPREHENSIVE INCOME		
Items that are or may be reclassified subsequently to profit or loss:		
Financial instruments at FVOCI—net change in fair value	187,084	(63,017)
Financial instruments at FVOCI—reclassified to profit or loss	(7,279)	(10,738)
Financial instruments at FVOCI—net remeasurement in loss allowance	(4)	(4)
Other Comprehensive Income for the year	179,801	(73,759)
Total Comprehensive Income for the year	$ 311,675	$ 57,963

The notes on pages 24 to 43 are an integral part of these financial statements

Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31

THOUSANDS OF DOLLARS	Accumulated other comprehensive income*	Retained earnings	Total
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 12)	–	(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
Profit for the year	–	131,874	131,874
Allocations to clients (Note 12)	–	(109,802)	(109,802)
Net change in fair value of FVOCI financial assets:			
Financial instruments at FVOCI—net change in fair value	187,084	–	187,084
Financial instruments at FVOCI—reclassified to profit or loss	(7,279)	–	(7,279)
Financial instruments at FVOCI—net remeasurement in loss allowance	(4)	–	(4)
Balance December 31, 2019	$ 421,549	$ 70,518	$ 492,067

The notes on pages 24 to 43 are an integral part of these financial statements

**Accumulated other comprehensive income represents unrealized gain (loss) on fair value through other comprehensive income investments.*

Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31

THOUSANDS OF DOLLARS	2019	2018
OPERATING ACTIVITIES		
Profit for the year	$ 131,874	$ 131,722
Non-cash items:		
Gain on disposal of investments	–	54
Accretion of discounts on investments	(87,115)	(83,979)
Amortization of premiums and discounts on long-term debt	(16,533)	(16,748)
Investment income due to clients	4,710	2,597
Depreciation on property and equipment	212	55
Interest expense on lease liability	42	–
Loss from change in fair value of derivative contracts	–	29
Impairment (gain) loss on investments and loans to clients	(109)	285
Expected credit loss allowance on cash and cash equivalents	(1)	(3)
Changes in accrued interest and other receivables	(4,838)	12,923
Changes in trade and other payables	(282)	1,151
Net cash provided by operating activities	27,960	48,086
INVESTING ACTIVITIES		
Investments sold or matured	702,742	903,344
Investments purchased	(457,594)	(741,465)
Net cash applied to investing activities	245,148	161,879
FINANCING ACTIVITIES		
New debt issued	1,210,200	1,732,989
Debt retired	(1,176,103)	(1,223,252)
Loan repayments from clients	541,463	471,074
New loans to clients	(591,891)	(877,917)
Bank indebtedness and commercial paper issued	4,694,156	5,644,255
Bank indebtedness and commercial paper repaid	(4,804,043)	(5,669,510)
Settlement of derivative contracts	–	(8,094)
Contributions from clients for new long-term loans	3,981	7,255
Contributions and earnings refunded to clients	(5,231)	(11,074)
Surplus payments to clients (Note 12)	(499)	(2,417)
Lease liability repaid	(174)	–
Net cash provided by financing activities	(128,141)	63,309
Increase in cash and cash equivalents	144,967	273,274
Cash and cash equivalents, beginning of the year	592,367	319,093
Cash and cash equivalents, end of the year	$ 737,334	$ 592,367

The notes on pages 24 to 43 are an integral part of these financial statements

Supplementary cash flow information (Note 13)

Notes to the 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) of the *Income Tax Act*, the Authority is exempt from income taxes.

These 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.

2. Basis of presentation

(a) Statement of compliance:

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

The financial statements were authorized for issue by the Members of the Authority on March 26, 2020.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for financial assets designated as fair value through other comprehensive income (FVOCI) financial assets, including investments, which are measured at fair value.

(c) Functional and presentation currency:

These 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 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.

(ii) The amounts recognized in the notes to the 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.

Notes to the Financial Statements continued

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated (also see note 19).

(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 statements of changes in equity (note 12).

(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 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 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

(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.

Notes to the Financial Statements continued

3. Significant accounting policies (continued)

(d) Financial instruments (continued)

(ii) Classification and subsequent measurement:

Financial assets

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.

Investments and cash are 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.

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.

Notes to the Financial Statements continued

3. Significant accounting policies (continued)

(d) Financial instruments (continued)

(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.

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.

Notes to the Financial Statements continued

3. Significant accounting policies (continued)

(f) Property and equipment (continued)

(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.

(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.

3. Significant accounting policies (continued)

(g) Impairment (continued)

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

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

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 obliger 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 obliger 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 cost are deducted from the gross carrying amount of the assets and charged to profit or loss. 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.

(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.

Notes to the Financial Statements continued

3. Significant accounting policies (continued)

(g) Impairment (continued):

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 expensed as incurred.

(i) Leases (policy applicable from January 1, 2019):

At the inception of a contract, the Authority assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Authority assesses whether:

- the supplier has a substantive right;
- the Authority has the right to obtain substantially all economic benefits from use of the asset throughout the period; and
- the Authority has the right to direct the use of the asset. The Authority has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

For contracts that contain a lease, the Authority recognizes a right-of-use asset, presented in property and equipment in the statement of financial position, and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment.

The lease liability is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Authority's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in the Authority's estimate of the amount expected to be payable under a residual value guarantee, when there is a change in future lease payments arising from a change in a rate used to determine those payments, or if the Authority changes its assessment of whether it will exercise a purchase, extension or termination option.

Short-term leases and leases of low-value assets:

The Authority has elected not to recognize right-of-use assets and lease liabilities for short-term leases of equipment that have a lease term of 12 months of less and leases of low-value assets, including IT equipment. The Authority recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Notes to the 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	2019	2018
Government of Canada	$ 9,986	56,585	10,148	52,549	$ 129,268	$ 137,321
Provincial governments	12,423	85,162	309,898	2,114,023	2,521,506	2,364,608
Chartered banks	–	15,396	83,871	150,510	249,777	386,250
Credit unions	8,003	11,824	5,143	–	24,970	41,667
Local governments	7,776	17,399	9,197	662,049	696,421	670,325
Corporations	–	–	–	–	–	–
	$ 38,188	186,366	418,257	2,979,131	$ 3,621,942	$ 3,600,171

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

The 12-month expected credit loss for investments is $18,403 (2018 – $22,549), the net remeasurement gain is $4,056 (2018 – $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 represent loans receivable for the following purposes:

THOUSANDS OF DOLLARS	2019	2018
Tax revenue anticipation	$ 817	$ 53
Temporary financing of capital projects	157,862	199,200
Short-term capital borrowing	63,315	58,709
	221,994	257,962
Expected credit loss provision	29	361
	$ 221,965	$ 257,601

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

The amounts due within one year are $13,784,040 (2018 – $71,117,944).

The 12-month expected credit loss for short-term loans to clients is $28,680 (2018 – $360,790), the net remeasurement gain is $332,110 (2018 – $290,879 loss), with no transfer to lifetime expected credit losses.

Notes to the 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 12) are as follows:

THOUSANDS OF DOLLARS	
2020	$ 308,641
2021	300,556
2022	288,688
2023	275,948
2024	260,674
2025 – 2029	940,901
2030 and thereafter	714,314
	3,089,722
Actuarial adjustment, budgeted	1,602,347
Expected credit loss provision	459
	$ 4,691,610

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 $1,602,347,154. 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 $458,997 (2018 – $232,753), the net remeasurement loss is $226,244 (2018 – $99), with $466 (2018 – $190) transferred to lifetime expected credit losses.

Notes to the Financial Statements continued

7. Property and equipment

Property and equipment consists of a right-of-use asset related to a leased facility out of which the Authority operates, and the net book value of the leasehold improvements on that facility. Previously, this lease was classified as an operating lease under IAS 17.

THOUSANDS OF DOLLARS		2019		2018
Property, plant and equipment owned (leasehold improvements)	$	190	$	245
Right-of-use assets		1,338		-
	$	1,528	$	245

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 $292,900 (2018 – $238,300).

The right-of-use asset balance as at December 31, 2019 is $1,495,651, which is reflected net of accumulated depreciation of $157,437.

The facility lease contains an extension option exercisable by the Authority up to one year before the end of the non-cancellable contract period. The Authority estimates that the future lease payments should it exercise the extension option would be $558,651.

8. Trade and other payables

Trade and other payables consist of:

THOUSANDS OF DOLLARS		2019		2018
Interest payable — Long-term debt	$	35,731	$	36,051
Other payables		455		419
	$	36,186	$	36,470

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 may 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 1.82% (2018—1.89%).

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.

Notes to the Financial Statements continued

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:

THOUSANDS OF DOLLARS	
2020	$ 2,500
2021	6,332
2022	7,011
2023	5,095
2024	8,868
2025 – 2029	40,069
2030 and thereafter	41,072
	$ 110,947

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

THOUSANDS OF DOLLARS	2019	2018
Cash	$ 34,956	$ 28,815
Accrued interest receivable	102	129
Investments	75,889	78,542
	$ 110,947	$ 107,486

Investments of the Debt Reserve Fund consist of the following securities:

THOUSANDS OF DOLLARS	2019	2018
Government of Canada	$ 6,287	$ 5,254
Provincial governments	59,337	46,616
Chartered banks	5,279	21,889
Local governments	4,986	4,783
	$ 75,889	$ 78,542

Also integral to the Debt Reserve Fund, but not presented on the statements of financial position, are Demand Notes Receivable from clients of $223,840,020 (2018 – $223,357,464) 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 against Due to clients, reflecting their contingent nature. Throughout the history of the organization, the Authority has never called upon any demand note.

10. Due to clients (continued)

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 $2,641,571 (2018 – $2,481,372) and incurred total expenses of $89,177 (2018 – $80,877). Included in accumulated other comprehensive income is an unrealized mark-to-market valuation gain on the investments of $2,158,081 (2018 – $196,853 loss). 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 $4,710,475 (2018 – $2,597,348) and is recorded as investment income due to clients.

11. 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		
2020	$	640,969
2021		1,243,756
2022		808,823
2023		1,521,575
2024		1,202,401
2025 – 2029		2,617,657
2030 and thereafter		48,363
		8,083,544
Transaction costs, net of accumulated amortization		69,673
	$	8,153,217

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 some level of refinancing. Refinancing 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.

12. 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:

THOUSANDS OF DOLLARS		2019		2018
Cash surplus repayments	$	499	$	2,417
Future invoice payments forgiven		-		106
Actuarial earnings recognized		109,303		114,886
	$	109,802	$	117,409

Included in actuarial earnings recognized is $42,006,857 (2018 – $38,558,804) of accrued earnings calculated from the last principal payment dates to December 31, 2019.

Notes to the Financial Statements continued

13. Supplemental cash flow information

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

THOUSANDS OF DOLLARS	2019	2018
Interest from clients on long-term loans	$ 237,957	$ 245,653
Interest from clients on short-term loans	6,625	6,227
Interest from investments	37,515	62,646

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

THOUSANDS OF DOLLARS	2019	2018
Interest on long-term debt	$ 253,981	$ 262,746
Interest on short-term indebtedness	11,174	9,991

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

14. 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.

14. Financial instruments (continued)

(b) Liquidity risk (continued):

The Authority utilizes a commercial paper facility with an authorized limit of $700 million, has access to a bank demand facility of $100 million, and maintains an adequate liquid capital base which is available to ensure timely payment of its obligations. Term facilities of $350 million are also maintained to backstop the commercial paper program, but may be accessed for general corporate purposes if required.

THOUSANDS OF DOLLARS							
December 31, 2019	Carrying amount	Contractual cash flows	*6 months or less*	*6 -12 months*	*1-2 years*	*2-5 years*	*more than 5 years*
Non-derivative financial liabilities							
Trade and other payables	$ 36,186	$ 36,186	*36,186*	–	–	–	–
Bank and short-term indebtedness	564,278	564,278	*564,278*	–	–	–	–
Due to clients	110,947	110,947	*798*	*1,702*	*6,332*	*20,974*	*81,141*
Long-term debt	8,153,217	9,274,365	*568,150*	*312,515*	*2,442,180*	*3,222,723*	*2,728,797*
	$ 8,864,628	$ 9,985,776	*1,169,412*	*314,217*	*2,448,512*	*3,243,697*	*2,809,938*

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*
Non-derivative financial liabilities							
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*

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.

Notes to the Financial Statements continued

14. Financial instruments (continued)

(c) Interest rate risk (continued):

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

THOUSANDS OF DOLLARS		2019		2018
Fixed rate instruments				
Financial assets	$	8,389,229	$	8,375,237
Financial liabilities		(8,265,394)		(8,250,792)
	$	123,835	$	124,445
Variable rate instruments				
Financial assets	$	967,301	$	868,486
Financial liabilities		(599,234)		(702,982)
	$	368,067	$	165,504

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 $793,222 (2018 – $2,551,253).

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 $2,667,868 (2018 – $194,524). 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.

14. Financial instruments (continued)

(d) Credit risk (continued):

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.

THOUSANDS OF DOLLARS				
December 31, 2019	Investments	Cash and cash equivalents & Loans to clients		
	Stage 1	Stage 1	Stage 2	Stage 3
Gross carrying amount	$ 3,621,942	$ 5,650,936	$ 466	$ –
Loss allowance	18	491	–	–
Carrying amount	$ 3,621,924	$ 5,650,445	$ 466	$ –

THOUSANDS OF DOLLARS				
December 31, 2018	Investments	Cash and cash equivalents & Loans to clients		
	Stage 1	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	$ –

The loss allowance for financial assets at Stage 2 was $466 (2018 – $190).

(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 (2018 – $98,194,100). The Authority has made related principal payments towards those contracts of $57,300,000 (2018 – $48,700,000). Remaining contractual payments towards the contracts are $1,869,100 (2018 – $10,469,100).

14. Financial instruments (continued)

(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).

THOUSANDS OF DOLLARS	2019	2018
FVOCI financial assets		
Level 1	$ -	$ -
Level 2	3,581,650	3,558,911
Level 3	40,292	41,260
	$ 3,621,942	$ 3,600,171

Prior year figures for level 1 and level 2 financial instruments have been reclassed for comparative purposes. There were no transfers into or out of Level 3 investments during the year. Level 2 and 3 financial instruments are measured using either a market approach valuation technique using third party pricing information without adjustment, or an income approach valuation technique where the cash flows the Authority expects to receive at maturity are discounted. The significant unobservable inputs for level 2 instruments is third party pricing information and the discount rate, and management's assumptions on expected maturity dates and discount rate for level 3 instruments. If the discount rate was higher (lower), the estimated fair value would decrease (increase). If the maturity date were to change by 1 year, the corresponding potential change in fair market value would be an increase in value by $964,000. The net change in fair value of Level 3 investments during the year was $968,000 (2018 - $1,260,000).

14. 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 statement of financial position, are as follows:

THOUSANDS OF DOLLARS	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value				
Investments	$ 3,621,942	$ 3,621,942	$ 3,600,171	$ 3,600,171
Assets carried at amortized cost				
Cash and cash equivalents	$ 737,334	$ 737,334	$ 592,367	$ 592,367
Accrued interest and other receivables	83,679	83,679	78,841	78,841
Short-term loans to clients	221,965	221,965	257,601	257,601
Long-term loans to clients	4,691,610	5,307,063	4,714,743	5,245,257
	$ 5,734,588	$ 6,350,041	$ 5,643,552	$ 6,174,066
Liabilities carried at amortized cost				
Trade and other payables	$ (36,186)	$ (36,186)	$ (36,470)	$ (36,470)
Bank and short-term indebtedness	(564,278)	(564,278)	(674,165)	(674,165)
Due to clients	(110,947)	(110,947)	(107,486)	(107,486)
Long-term debt	(8,153,217)	(8,473,168)	(8,135,653)	(8,346,752)
	$ (8,864,628)	$ (9,184,579)	$ (8,953,774)	$ (9,164,873)

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

THOUSANDS OF DOLLARS	2019		2018	
	Level 1	Level 2	Level 1	Level 2
Accrued interest and other receivables	$ –	$ 83,679	$ –	$ 78,841
Short-term loans to clients	–	221,965	–	257,601
Long-term loans to clients	–	5,307,063	–	5,245,257
	$ –	$ 5,612,707	$ –	$ 5,581,699
Trade and other payables	$ –	$ (36,186)	$ –	$ (36,470)
Bank and short-term indebtedness	(564,278)	–	(674,165)	–
Due to clients	–	(110,947)	–	(107,486)
Long-term debt	–	(8,473,168)	–	(8,346,752)
	$ (564,278)	$ (8,620,301)	$ (674,165)	$ (8,490,708)

Notes to the Financial Statements continued

15. 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, 2019 and 2018, the Authority was in compliance with these covenants.

Starting January 1, 2019, the Authority has self imposed capital requirements on itself, with a target capital level of the greater of a non-risk capital assessment and a risk based capital assessment. There were no other changes to the approach to capital management during the year.

16. 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, 2019 and 2018, the Authority has no assets or operations outside of British Columbia.

17. Related party transactions

Compensation of key personnel and trustees, including executive management, during the years ended December 31, 2019 and 2018 were as follows:

THOUSANDS OF DOLLARS	2019	2018
Compensation	$ 852	$ 892

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended December 31, 2019 and 2018.

Notes to the Financial Statements continued

18. Employee future benefit obligations

The Authority and its employees contribute to the Municipal Pension Plan (the "Plan"), a jointly trusteed 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 195,921 active members and approximately 100,956 retired members. Active members include approximately 40,000 contributors from local governments.

Every three years an actuarial valuation is performed to access the financial position of the Plan and the adequacy of Plan funding. The most recent actuarial valuation of the entire Plan on December 31, 2018 indicated a surplus of $2,866 million for basic pension benefits. The next valuation will be as at December 31, 2021. 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 fifteen employes during the fiscal year, the Authority paid $149,678 (2018 – $142,906) for employer contributions and Authority employees paid $133,907 (2018 – $126,146) to the Plan. Employer contributions are expected to be consistent in future years with minor increases for inflation and Plan deficits.

19. Adoption of New Accounting Standard

The Authority adopted IFRS 16 Leases effective January 1, 2019. The standard introduces a single lessee accounting model that 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 Authority applied the following practical expedients on initial application:

- use of the modified retrospective approach with no restatement of prior periods. For contracts previously classified as operating leases, the Authority has elected for the right-of-use asset to equal the lease liability, adjusted for any prepaid amount; and
- electing to not recognize leases for which the underlying asset is of low value.

The Authority's assessment of non-cancellable operating lease commitments indicated that one arrangement met the definition of a lease under IFRS 16. The Authority recognized $1,495,651 as a right-of-use asset and a corresponding liability in respect of these leases as at January 1, 2019.

THOUSANDS OF DOLLARS		
Operating lease commitments as at December 31, 2018 as disclosed in the Authority's financial statements	$	1,188
Commitments reclassified as right-of-use assets on transition to IFRS 16		800
Other commitments as at January 1, 2019		388
Lease liabilities as at January 1, 2019		800
Extension options reasonably certain to be exercised		815
Total lease liabilities as at January 1, 2019		1,615
Discount using the incremental borrowing rate of 3.00%		119
Lease liabilities recognized as at January 1, 2019		1,496

When measuring new lease liabilities, the Authority discounted lease payments using an incremental borrowing rate of 3.0%.

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:					
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
62620DAJ0	2019	June 03, 2024	2.150		800,000
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
62620DAH4	2019	October 09, 2029	2.550		405,000
62620DAC5	2017	January 19, 2042	3.505		61,250
113	2011	March 25, 2021	3.560		2,300
			carried forward	$	9,251,850

DECEMBER 31, 2019 LONG-TERM DEBT OUTSTANDING	DECEMBER 31, 2018 LONG-TERM DEBT OUTSTANDING	REFERENCES
$ –	$ 530,000	(1)
–	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	410,000	(1)
485,000	485,000	(1)
605,000	605,000	(1)
800,000	-	(1)
335,000	335,000	(1)
50,000	50,000	(1)
44,782	51,701	(1)
125,000	125,000	(1)
50,000	50,000	(1)
610,000	610,000	(1)
670,000	670,000	(1)
725,000	725,000	(1)
405,000	-	(1)
60,373	61,250	(1)
2,300	2,300	(1) (2)
$ 8,017,455	$ 7,980,251	

Schedule of Long-term Debt

Unaudited – for information purposes only

THOUSANDS OF DOLLARS					
ISSUE	YEAR OF ISSUE	MATURITY DATE	INTEREST RATE PERCENT		ORIGINAL AMOUNT
			brought forward	$	9,251,850
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
148	2019	June 21, 2039	4.000		1,258
					65,178
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				$	9,357,896
Unamortized premiums and discounts:					
Long-term debt					

DECEMBER 31, 2019 LONG-TERM DEBT OUTSTANDING	DECEMBER 31, 2018 LONG-TERM DEBT OUTSTANDING	REFERENCES
$ 8,017,455	$ 7,980,251	
4,561	4,561	(1) (3)
–	1,492	(1) (4)
25	75	(1) (4)
843	1,181	(1) (4)
2,000	2,000	(1) (4)
1,400	1,800	(1) (4)
4,074	4,815	(1) (4)
6,000	7,000	(1) (4)
2,778	3,241	(1) (4)
711	795	(1) (4)
907	998	(1) (4)
1,142	1,256	(1) (4)
1,299	1,399	(1) (4)
2,121	2,278	(1) (4)
7,500	8,000	(1) (4)
800	850	(1) (4)
8,500	9,000	(1) (4)
1,227	–	(1) (4)
41,327	46,180	
4,686	5,379	(1) (5)
8,495	9,544	(1) (5)
7,020	7,473	(1) (5)
20,201	22,396	
8,083,544	8,053,388	
69,673	82,265	
$ 8,153,217	$ 8,135,653	

References to Schedule of Long-term Debt

DECEMBER 31, 2019 AND 2018

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 2018	NEW LOANS	LOANS REPAID	BALANCE OUTSTANDING 2019	PRINCIPAL TO BE REPAID 2019	PRINCIPAL TO BE REPAID 2018
REGIONAL DISTRICTS					(Note a)	
Alberni-Clayoquot	$ 20,511	–	926	$ 19,585	$ 10,927	11,581
Bulkley-Nechako	9,999	210	718	9,491	6,316	6,665
Capital	286,560	86,820	28,993	344,387	230,455	189,268
Cariboo	34,969	1,917	3,981	32,905	21,526	22,530
Central Coast	97	–	24	73	25	34
Central Kootenay	50,176	9,070	3,874	55,372	31,612	28,138
Central Okanagan	140,088	–	16,481	123,607	78,778	90,925
Columbia Shuswap	55,183	5,300	3,722	56,761	31,547	30,658
Comox Valley	27,225	–	3,623	23,602	13,045	15,230
Cowichan Valley	46,192	12,442	3,471	55,163	37,376	30,780
East Kootenay	58,366	5,500	4,065	59,801	38,920	38,007
Fraser Valley	74,026	–	5,810	68,216	37,225	41,101
Fraser-Fort George	74,203	2,214	9,195	67,222	45,046	49,633
Kitimat-Stikine	28,654	1,234	1,470	28,418	19,830	20,114
Kootenay Boundary	41,433	2,210	2,295	41,348	25,262	25,481
Metro Vancouver (Note b)	2,155,019	202,095	188,474	2,168,640	1,456,973	1,446,180
Mount Waddington	2,212	–	163	2,049	1,172	1,285
Nanaimo	98,381	16,600	6,803	108,178	70,112	62,863
North Coast	14,705	–	952	13,753	8,162	8,851
North Okanagan	89,968	–	9,608	80,360	49,177	55,335
Northern Rockies	28,301	–	1,125	27,176	15,003	15,825
Okanagan-Similkameen	78,412	3,500	6,910	75,002	44,962	46,979
Peace River	88,772	388	7,979	81,181	49,815	55,382
qathet	11,212	–	433	10,779	5,650	5,990
Squamish-Lillooet	49,582	2,091	4,634	47,039	29,254	30,661
Strathcona	10,500	4,800	653	14,647	11,140	7,844
Sunshine Coast	28,269	280	3,402	25,147	16,873	19,137
Thompson-Nicola	113,155	3,420	10,501	106,074	72,381	78,083
OTHER						
CREST	21,337	5,500	2,678	24,159	19,726	17,197
E-COMM	66,248	25,500	17,277	74,471	49,061	39,816
TransLink	154,960	–	12,324	142,636	80,596	88,992
Regional Hospital Districts *(page 48)*	756,262	7,037	58,472	704,827	481,775	520,425
Expected credit losses	(234)	–	–	(459)	–	–
	$ 4,714,743	398,128	421,036	$ 4,691,610	$ 3,089,722	3,100,990

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 $4,691,610,000 and the Principal To Be Repaid of $3,089,722,000 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 $382,304,407 (2018—$434,144,656) 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 2018	NEW LOANS	LOANS REPAID	BALANCE OUTSTANDING 2019	PRINCIPAL TO BE REPAID 2019	PRINCIPAL TO BE REPAID 2018
REGIONAL HOSPITAL DISTRICTS						
Alberni-Clayoquot	$ 2,726	–	1,089	$ 1,637	$ 769	1,262
Capital	175,273	7,037	20,646	161,664	129,141	137,961
Central Okanagan	89,353	–	5,368	83,985	50,030	54,085
Comox-Strathcona	90,138	–	7,934	82,204	70,692	78,550
Cowichan Valley	363	–	78	285	156	197
Fraser Valley	34,550	–	3,162	31,388	17,388	19,452
Fraser-Fort George	6,004	–	2,435	3,569	1,605	2,733
Kootenay East	978	–	108	870	568	650
Mount Waddington	1,107	–	200	907	604	717
Nanaimo	27,463	–	1,852	25,611	16,302	17,760
North Okanagan/Columbia-Shuswap	66,345	–	3,217	63,128	34,001	36,378
North West	31,381	–	2,204	29,177	18,675	20,220
Okanagan-Similkameen	342	–	136	206	95	155
Peace River	68,541	–	2,683	65,858	32,546	34,431
Powell River	19,075	–	904	18,171	11,262	12,013
Sea to Sky	4,729	–	360	4,369	2,487	2,736
Sunshine Coast	8,180	–	793	7,387	4,020	4,530
Thompson	128,788	–	4,833	123,955	91,066	95,859
West Kootenay-Boundary	926	–	470	456	368	736
	$ 756,262	7,037	58,472	$ 704,827	$ 481,775	520,425

Five-Year Review

Unaudited—for information purposes only

THOUSANDS OF DOLLARS		2019		2018
ASSETS				
Cash and cash equivalents	$	737,334	$	592,367
Investments		3,621,942		3,600,171
Accrued interest and other receivables		83,679		78,841
Short-term loans to clients		221,965		257,601
Long-term loans to clients		4,691,610		4,714,743
Property and equipment		1,528		245
Total Assets	$	9,358,058	$	9,243,968
LIABILITIES AND EQUITY				
Trade and other payables	$	36,186	$	36,470
Bank and short-term indebtedness		564,278		674,165
Lease liability		1,363		–
Due to clients		110,947		107,486
Derivative contracts		–		–
Long-term debt		8,153,217		8,135,653
Total Liabilities		8,865,991		8,953,774
Equity		492,067		290,194
Total Liabilities and Equity	$	9,358,058	$	9,243,968
REVENUE				
Interest from loans to clients	$	244,136	$	252,990
Investment income		141,113		139,771
Amortization of premiums on long-term debt		16,533		16,748
Financial service fees		2,308		2,252
Recoveries from new issues		8		8
Operating levy		435		412
Total Revenue		404,533		412,181
EXPENSE				
Interest on long-term debt		253,662		263,946
Interest on bank and short-term indebtedness		10,842		10,308
Interest on lease liability		42		–
Administration		3,390		3,182
Investment income due to clients		4,710		2,597
Impairment (gain) loss on investments and loans to clients		(109)		285
Debt management and marketing		122		112
Loss (gain) from change in fair value of derivative contracts		–		29
Total Expense		272,659		280,459
Profit for the year		131,874		131,722
Equity, beginning of the year		290,194		349,946
Adjustment on initial application of IFRS 9		–		(306)
Allocations to clients		(109,802)		(117,409)
Unrealized gains (losses) from change in fair value of FVOCI investments		179,805		(73,755)
Net remeasurement on loss allowance		(4)		(4)
Equity, end of the year	$	492,067	$	290,194

2017	2016	2015
$ 319,093	$ 203,619	$ 140,220
3,751,880	3,613,272	3,305,574
91,763	83,799	79,259
279,409	318,188	303,158
4,401,677	4,288,088	4,299,992
299	354	250
$ 8,844,121	$ 8,507,320	$ 8,128,453
$ 35,316	$ 34,082	$ 35,864
699,420	699,676	549,779
–	–	–
108,708	107,910	107,642
8,067	20,040	102,827
7,642,664	7,373,389	7,020,403
8,494,175	8,235,097	7,816,515
349,946	272,223	311,938
$ 8,844,121	$ 8,507,320	$ 8,128,453
$ 260,430	$ 263,378	$ 268,206
137,158	133,227	119,767
19,036	12,078	7,930
2,442	2,415	2,278
–	8	1,739
371	295	264
419,437	411,401	400,184
276,768	269,006	274,238
5,451	3,867	3,759
–	–	–
3,074	3,372	3,229
1,497	1,351	3,562
–	–	–
110	105	123
(574)	12,545	24,265
286,326	290,246	309,176
133,111	121,155	91,008
272,223	311,938	299,732
–	–	–
(118,703)	(112,146)	(102,772)
63,315	(48,724)	23,970
–	–	–
$ 349,946	$ 272,223	$ 311,938

Bond Issues

Unaudited—for information purposes only

CANADIAN DOLLAR BONDS ISSUED IN CANADA

CUSIP / ISSUE	DESCRIPTION	DATED	AUTHORIZED $(000)	OUTSTANDING DECEMBER 31, 2019 $(000)	INTEREST
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
62620DAJ0	2.150% Debentures due June 03, 2024	June 03, 2019	800,000	800,000	Semi-annual June 03 December 03
626209JP6	2.950% Debentures due October 14, 2024	October 14, 2014	335,000	335,000	Semi-annual April 14 October 14

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, 2019 $(000)	INTEREST
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	44,782	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
62620DAH4	2.550% Debentures due October 09, 2029	April 09, 2019	405,000	405,000	Semi-annual April 09 October 09
62620DAC5	3.505% Amortizing Debentures due January 19, 2042	January 19, 2017	61,250	60,373	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

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