

**Municipal Finance
Authority of BC**

CELEBRATING

50

2020 | Annual Report

Financial Statements and Related Reports

Today, the MFA is a highly-respected, world-renowned organization that has proven to be an example of the best of B.C. – a willing partner in tune with the needs of its members and collaborating across sectors to support the local government system and the services citizens around the province expect from their local elected bodies.

Thank you for your leadership and continued support to local government, and particularly to the local government profession. We are deeply appreciative as well of the “spirit of giving back” demonstrated so often by you, your team, and the Board of Trustees of the MFA. Your ongoing financial support to the development of new professional training programs, sponsorship of educational initiatives...are a strong testament to that support for the local government sector.

Ron Bowles, Past President, LGMA

Financial Statements and Related Reports

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Management Discussion and Analysis

This Management Discussion and Analysis provides commentary on the financial and operating results of the Municipal Finance Authority of British Columbia (MFA) for the 2020 fiscal year and should be read in conjunction with the 2020 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 purposes of funding of 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 \$1.25 billion, 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, a government focused ultra-short bond fund, a short-term bond fund, a fossil fuel free short-term bond fund, and a mortgage fund. 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 the 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.

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.



Management Discussion and Analysis continued

INVESTOR CONFIDENCE

Long-term financing needs are met through the placements of bullet debentures in capital markets primarily through 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 \$1.25 billion and supported by a dealer network of Canadian chartered banks.

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

CREDIT FUNDAMENTALS

Joint & 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 has 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 to all 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 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 assumptions 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, 2020; 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, 2020, were 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.

BORROWING PROGRAMS AND LENDING

Long-term borrowing and lending program

During 2020 \$1,020 million was raised in long-term debt through the issuance of a new 5-year debenture, and the reopening of an existing 10-year debenture. The performance of these issuances are measured against senior governments and large municipalities in Canada.

April: Issued an additional \$280 million of the 2.65% October 2, 2025 debenture with a yield of 1.855%. At the time of this issue, the Government of Canada 5-year benchmark was yielding 0.715% while other comparable municipal issuers were returning a yield in the range of 1.950% - 2.100%.

June: Issued \$615 million of a new 5-year debenture with a coupon of 1.10% and a yield of 1.132% dated June 1, 2025. At the time of this issue, the Government of Canada 5-year benchmark was yielding 0.407% while other comparable municipal issuers were returning a yield in the range of 1.250% - 1.400%.

October: Issued an additional \$125 million of the 2.65% October 2, 2025 debenture with a yield of 0.759% bringing the total outstanding to \$530 million. At the time of this reopening, the Government of Canada 5-year benchmark was yielding 0.359% while other comparable municipal issuers were returning a yield in the range of 0.850% - 1.000%.

Long-term growth in 2020 has increased by \$111 million from 2019, with outstanding loans of \$4.8 billion at year-end. Of the new loans issued, financing was focussed on projects related to sewer and water infrastructure, hospital capital, protective services, roads, and parks and recreation projects.

Short-term borrowing and lending program

Our short-term borrowing program continues to be very active with \$4.5 billion in commercial paper issued (\$610 million of commercial paper outstanding at year-end), ranging from a term from 35-days to 91-days, with yields comparable to Provincial issuers. Commercial paper is benchmarked in relation to Government of Canada Treasury Bills.

This program achieves the lowest rate amongst our peers and allowed us to provide short-term financing to local governments at rates of between 1.21% and 2.58% throughout 2020. We had 391 short-term loans outstanding to local governments in BC at the end of 2020, averaging \$366,000 in size.

CAPITAL ADEQUACY

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 increased to \$96 million by the end of 2020, a \$12 million increase from 2019. This was accomplished by a combination of income from operations of \$3 million, earnings on investment income of \$5 million, and short-term debt fund earnings of \$4 million. The Strategic Retention Fund and Debt Reserve Fund (\$120 million) collectively comprise total capital (\$216 million as at December 31, 2020). MFA raises capital 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 (\$202 million) and a risk-based capital assessment (\$171 million):

Management Discussion and Analysis continued

	2020	2019
NON-RISK BASED CAPITAL ASSESSMENT		
Capital Leverage Ratio:		
Total Assets	\$10.1 billion	\$9.4 billion
Target %	2.00%	2.00%
Non-Risk Based Target Level	\$202 million	\$187 million
Current %	2.14%	2.08%
RISK BASED CAPITAL ASSESSMENT		
Part A - Capital Adequacy Ratio		
Total Risk Weighted Assets	\$1.7 billion	\$1.7 billion
Target %	9.68%	9.72%
Risk-Based Target Level A (credit, operational & market risk)	\$164 million	\$165 million
Current %	12.71%	11.44%
Part B - Key Internal Risks:		
Risk-Based Target Level B (investment return & long-term debt refinancing risk)	\$7 million	\$6 million
Combined Risk-Based Target Level (Part A + Part B)	\$171 million	\$171 million
Total Capital (Strategic Retention Fund & Debt Reserve Fund)	\$216 million	\$195 million

The MFA currently holds \$216 million in capital which is appropriate given the riskiness of assets held.

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 issuance 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 (\$216 million as at December 31, 2020), ensuring access to a \$100 million bank facility, and actively participating in the commercial paper market. Authorized access to two general corporate purpose facilities totalling \$625 million is maintained but only \$350 million has been activated to date to backstop the issued and outstanding level of commercial paper (\$610 million as at December 31, 2020). These facilities can be accessed if we are unable to issue or roll commercial paper but may also be accessed for general financing 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.

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. Steps taken by the Authority to respond to potential liquidity constraints arising from the pandemic included increasing the amount of commercial paper authorized to \$1.25 billion and securing temporary access to the Bank of Canada's Commercial Paper Purchase Program and the Contingent Term Repo Facility.

Management Discussion and Analysis continued

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 client's financial records. The MFA limits its exposure to credit risk associated with investments by diversifying its portfolio and restricting the investment portfolio to investment grade (BBB or higher) fixed-income securities.

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 2020, total revenue amounted to \$398 million against total expense of \$266 million for an annual profit of \$132 million.

During the year, clients were allocated \$115 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 25, 2021.

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, 2020 and December 31, 2019
- 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, 2020 and December 31, 2019, 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 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.

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.

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.



Chartered Professional Accountants

March 25, 2021

Victoria, British Columbia, Canada



Statements of Financial Position

AS AT DECEMBER 31

THOUSANDS OF DOLLARS

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 701,217	\$ 737,334
Investments (Note 4)	4,359,127	3,621,942
Accrued interest and other receivables	75,387	83,679
Short-term loans to clients (Note 5)	143,185	221,965
Long-term loans to clients (Note 6)	4,803,080	4,691,610
Property and equipment (Note 7)	1,316	1,528
Total Assets	\$ 10,083,312	\$ 9,358,058
LIABILITIES		
Trade and other payables (Note 8)	\$ 36,974	\$ 36,186
Bank and short-term indebtedness (Note 9)	609,926	564,278
Lease liability	1,222	1,363
Due to clients (Note 10)	120,070	110,947
Long-term debt (Note 11)	8,535,118	8,153,217
Total Liabilities	9,303,310	8,865,991
EQUITY		
Accumulated other comprehensive income	693,162	421,549
Retained earnings	86,840	70,518
Total Equity	780,002	492,067
Total Liabilities and Equity	\$ 10,083,312	\$ 9,358,058

The accompanying notes 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

	2020	2019
REVENUE		
Interest from loans to clients	\$ 231,749	\$ 244,136
Investment income	141,398	141,113
Amortization of premiums on long-term debt	21,339	21,082
Financial service fees	2,631	2,308
Recoveries from new issues	-	8
Operating levy	438	435
Total Revenue	397,555	409,082
EXPENSE		
Interest on long-term debt	247,376	253,662
Interest on bank and short-term indebtedness	3,871	10,842
Interest on lease liability	38	42
Amortization of discounts on long-term debt	4,841	4,549
Administration	3,623	3,390
Investment income due to clients (Note 10)	6,336	4,710
Impairment gain on investments and loans to clients	(66)	(109)
Debt management and marketing	56	122
Total Expense	266,075	277,208
Profit for the year	131,480	131,874
OTHER COMPREHENSIVE INCOME		
Items that are or may be reclassified subsequently to profit or loss		
Financial instruments at FVOCI – net change in fair value	273,399	187,084
Financial instruments at FVOCI – reclassified to profit or loss	(1,787)	(7,279)
Financial instruments at FVOCI – net remeasurement in loss allowance	1	(4)
Other Comprehensive Income for the year	271,613	179,801
Total Comprehensive Income for the year	\$ 403,093	\$ 311,675

The accompanying notes are an integral part of these financial statements

Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31

<i>THOUSANDS OF DOLLARS</i>			
	Accumulated other comprehensive income*	Retained earnings	Total
Balance December 31, 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
Profit for the year	—	131,480	131,480
Allocations to clients (Note 12)	—	(115,158)	(115,158)
Net change in fair value of FVOCI financial assets			
Financial instruments at FVOCI – net change in fair value	273,399	—	273,399
Financial instruments at FVOCI – reclassified to profit or loss	(1,787)	—	(1,787)
Financial instruments at FVOCI – net remeasurement in loss allowance	1		1
Balance December 31, 2020	\$ 693,162	\$ 86,840	\$ 780,002

The accompanying notes 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

	2020	2019
OPERATING ACTIVITIES		
Profit for the year	\$ 131,480	\$ 131,874
Non-cash items:		
Accretion of discounts on investments	(88,699)	(87,115)
Amortization of premiums and discounts on long-term debt	(16,498)	(16,533)
Investment income due to clients	6,336	4,710
Depreciation on property and equipment	212	212
Interest expense on lease liability	38	42
Impairment gain on investments and loans to clients	(66)	(109)
Expected credit loss allowance on cash and cash equivalents	(2)	(1)
Changes in accrued interest and other receivables	8,292	(4,838)
Changes in trade and other payables	788	(282)
Net cash provided by operating activities	41,881	27,960
INVESTING ACTIVITIES		
Investments sold or matured	100,470	702,742
Investments purchased	(477,344)	(457,594)
Net cash applied to investing activities	(376,874)	245,148
FINANCING ACTIVITIES		
New debt issued	1,041,355	1,210,200
Debt retired	(642,956)	(1,176,103)
Loan repayments from clients	564,423	541,463
New loans to clients	(712,057)	(591,891)
Bank indebtedness and commercial paper issued	4,461,789	4,694,156
Bank indebtedness and commercial paper repaid	(4,416,142)	(4,804,043)
Contributions from clients for new long-term loans	5,379	3,981
Contributions and earnings refunded to clients	(2,592)	(5,231)
Surplus payments to clients (Note 12)	(144)	(499)
Lease liability repaid	(179)	(174)
Net cash provided by financing activities	298,876	(128,141)
Increase (decrease) in cash and cash equivalents	(36,117)	144,967
Cash and cash equivalents, beginning of the year	737,334	592,367
Cash and cash equivalents, end of the year	\$ 701,217	\$ 737,334

The accompanying notes 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 Section 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 appropriately not consolidated in the financial statements.

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 25, 2021.

(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.
- (iv) COVID-19 – in March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic with governments around the world responding in different ways to address the outbreak. Given the extent of the crisis, the ultimate duration and magnitude of the impact on the economy and the financial effect on the Authority is not fully known at this time.



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.

(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 the rate of 1.00% per annum of the book value of the 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 to its acquisition or issue.

(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.

Notes to the Financial Statements continued

3. Significant accounting policies (continued)

(d) Financial instruments: (continued)

(i) Classification and subsequent measurement (continued):

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 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, 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.

(ii) 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.

Notes to the Financial Statements continued

3. Significant accounting policies (continued)

(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 quoted market prices are not available, fair values are calculated based on discounted cash flow analysis with an incorporation of credit risk as applicable.

(f) Property and equipment:

(i) Recognition and measurement:

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

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

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

(ii) Subsequent costs:

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

(iii) Depreciation:

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

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

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

- leasehold improvements 10 years

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

(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.

Notes to the Financial Statements continued

3. Significant accounting policies (continued)

(g) Impairment (continued)

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

Measurement of ECLs:

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

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

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

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

Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Authority 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 obligor is in default or is facing other material adverse change to its credit risk profile. For investments, a default is deemed to have occurred when the obligor fails to pay all or substantially all of its obligations as they come due, including any interest and principal payments.

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

Loss allowances for financial assets measured at amortized 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 profit or loss 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.

Notes to the Financial Statements continued

3. Significant accounting policies (continued)

(g) Impairment (continued)

(ii) Non-financial assets:

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

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

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

(h) Employee future benefits:

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

(i) Leases:

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 of the 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 or 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						
	<i>within 1yr</i>	<i>1-3yrs</i>	<i>3-5yrs</i>	<i>over 5yrs</i>	2020	2019
Government of Canada	\$ 14,882	53,425	-	56,604	\$ 124,911	\$ 129,268
Provincial governments	44,801	208,842	425,363	2,516,113	3,195,119	2,521,506
Chartered banks	5,309	22,333	152,563	45,495	225,700	249,777
Credit unions	12,291	5,331	-	-	17,622	24,970
Local governments	11,733	12,284	14,743	757,015	795,775	696,421
Corporations	-	-	-	-	-	-
	\$ 89,016	302,215	592,669	3,375,227	\$ 4,359,127	\$ 3,621,942

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

The 12-month expected credit loss for investments is \$19,532 (2019 – \$18,403), the net remeasurement loss is \$1,129 (2019 - \$4,056 gain), 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 to clients represent loans receivable for the following purposes:

THOUSANDS OF DOLLARS		
	2020	2019
Tax revenue anticipation	\$ 15,769	\$ 817
Temporary financing of capital projects	72,578	157,862
Short-term capital borrowing	54,853	63,315
	143,200	221,994
Expected credit loss provision	15	29
	\$ 143,185	\$ 221,965

Short-term loans are charged interest based on the daily 30-day Canadian Dollar Offered Rate (CDOR) plus 0.75% and carry a maximum term of 5 years.

The amounts due within one year are \$23,023,513 (2019 – \$13,784,040).

The 12-month expected credit loss for short-term loans to clients is \$15,334 (2019 - \$28,680), the net remeasurement gain is \$13,346 (2019 – \$332,110), 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 write-down 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:

<i>THOUSANDS OF DOLLARS</i>	
2021	\$ 327,709
2022	315,842
2023	303,101
2024	287,826
2025	261,667
2026 – 2030	953,867
2031 and thereafter	789,969
	3,239,981
Actuarial adjustment, budgeted	1,563,503
Expected credit loss provision	404
	\$ 4,803,080

These scheduled principal payments require management to estimate an expected earnings rate on investments on commencement (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, 3.00% on issues up to and including Issue 149, 2.00% on issues up to and including Issue 151, and 1.75% thereafter), therefore included in loans to clients are budgeted non-cash actuarial adjustments of \$1,563,502,603. 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, 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 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 \$404,236 (2019 - \$458,997), the net remeasurement gain is \$54,761 (2019 - \$226,244 loss), with no transfer to lifetime expected credit losses (2019 - \$466).

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.

<i>THOUSANDS OF DOLLARS</i>		
	2020	2019
Property, plant and equipment owned (leasehold improvements)	\$ 135	\$ 190
Right-of-use assets	1,181	1,338
	\$ 1,316	\$ 1,528

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 \$347,500 (2019 – \$292,900).

The right-of-use asset balance as at December 31, 2020 is \$1,495,651, which is reflected net of accumulated depreciation of \$314,874 (2019 - \$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:

<i>THOUSANDS OF DOLLARS</i>		
	2020	2019
Interest payable – Long-term debt	\$ 36,460	\$ 35,731
Other payables	514	455
	\$ 36,974	\$ 36,186

9. Bank and short-term indebtedness

The Authority has a commercial paper facility with an authorized limit of \$1.25 billion 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 a term facility from one or more Canadian chartered banks for at least 50% of the issued and outstanding commercial paper. At year end, the Authority had authorized access to two general corporate purpose facilities totaling \$625 million but had only activated access to \$350 million given \$610 million of commercial paper being issued and outstanding. As at year end, the average interest rate on commercial paper issued was 0.20% (2019 – 1.82%).

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 this 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 districts or member municipalities have made the final payment under their respective loan agreements, then these deposits are repaid to clients.

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

<i>THOUSANDS OF DOLLARS</i>		
2021	\$	6,684
2022		7,399
2023		5,378
2024		9,361
2025		7,561
2026 – 2030		38,037
2031 and thereafter		45,650
	\$	120,070

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

<i>THOUSANDS OF DOLLARS</i>			
		2020	2019
Cash	\$	37,747	\$ 34,956
Accrued interest receivable		103	102
Investments		82,220	75,889
	\$	120,070	\$ 110,947

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

<i>THOUSANDS OF DOLLARS</i>			
		2020	2019
Government of Canada	\$	7,965	\$ 6,287
Provincial governments		63,556	59,337
Chartered banks		5,309	5,279
Local governments		5,390	4,986
	\$	82,220	\$ 75,889

Also integral to the Debt Reserve Fund, but not presented on the statements of financial position, are Demand Notes Receivable from clients of \$229,785,394 (2019 – \$223,840,020) 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.

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 \$2,389,815 (2019 – \$2,641,571) and incurred total expenses of \$75,879 (2019 – \$89,177). Included in accumulated other comprehensive income is an unrealized mark-to-market valuation gain on the investments of \$4,022,108 (2019 – \$2,158,081). 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 \$6,336,044 (2019 – \$4,710,475) and is recorded as investment income due to clients.



Notes to the Financial Statements continued

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):

<i>THOUSANDS OF DOLLARS</i>	
2021	\$ 1,243,756
2022	808,823
2023	1,521,575
2024	1,202,401
2025	1,157,940
2026 – 2030	2,484,325
2031 and thereafter	43,755
	8,462,575
Transaction costs, net of accumulated amortization	72,543
	\$ 8,535,118

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 may 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 cost) by the investments relating to specific debenture issues that have matured and were distributed back to clients for whom the financing was undertaken. Accruals of investment income due to clients and allocations of net profit to clients, which apply to the Debt Reserve Fund, are shown separately.

During the year, the following amounts were allocated:

<i>THOUSANDS OF DOLLARS</i>				
	2020		2019	
Cash surplus repayments	\$	144	\$	499
Actuarial earnings recognized		115,014		109,303
	\$	115,158	\$	109,802

Included in actuarial earnings recognized is \$45,957,090 (2019 – \$42,006,857) of accrued earnings calculated from the last principal payment dates to December 31, 2020.

13. Supplemental cash flow information

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

<i>THOUSANDS OF DOLLARS</i>				
	2020		2019	
Interest from clients on long-term loans	\$	230,940	\$	237,957
Interest from clients on short-term loans		3,181		6,625
Interest from investments		51,961		37,515

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

<i>THOUSANDS OF DOLLARS</i>				
	2020		2019	
Interest on long-term debt	\$	246,647	\$	253,981
Interest on short-term indebtedness		4,641		11,174

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.

Notes to the Financial Statements continued

14. Financial instruments

(a) 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. The Authority has additional controls in place through the establishment of the Credit Committee and the Investment Committee to assist in managing key credit, investment, and financial risks.

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

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

(b) Liquidity risk:

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

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

The Authority utilizes a commercial paper facility with an authorized limit of \$1.25 billion, has access to bank demand facilities of \$100 million, and maintains a Debt Reserve Fund which is available to ensure timely payment of its obligations. Term facilities of \$350 million are also maintained to backstop the commercial paper program but may be accessed for general corporate purposes if required. Further, the Authority retains access to repurchase agreements with three Schedule I banks to backstop any potential risk arising from timing of debenture refinancing.

Steps taken by the Authority to respond to potential liquidity constraints arising from the COVID-19 pandemic included increasing the amount of commercial paper authorized from \$700 million to \$1.25 billion and securing access to the Bank of Canada's Commercial Paper Purchase Program (CPPP) and the Contingent Term Repo Facility (CTRF). The maximum amount available under the CPPP is based on 1.25 times the maximum amount of commercial paper outstanding in the 12-month period prior to the program start date of April 2, 2020, with a rate based on a spread above a reference rate based on the 3-month Canadian overnight index swap (OIS) rate. Under the CTRF, the rate is based on the OIS rate of the maturity of the operation plus the higher of 35 basis points or the highest spread over the OIS rate on the most recent term repo with the closest tenor, or as otherwise determined by the Bank of Canada. The maximum amount available under the CTRF is dependent on the Authority's eligible securities that are deemed sufficiently high quality by the Bank of Canada. These facilities remain undrawn as at December 31, 2020.

<i>THOUSANDS OF DOLLARS</i>							
December 31, 2020	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	more than 5 years
<i>Non-derivative financial liabilities</i>							
Trade and other payables	\$ 36,974	\$ 36,974	36,974	-	-	-	-
Bank and short-term indebtedness	609,926	609,926	609,926	-	-	-	-
Due to clients	120,070	120,070	3,135	3,549	7,399	22,300	83,687
Long-term debt	8,535,118	9,497,805	1,357,783	110,530	2,708,883	3,334,190	1,986,419
	\$ 9,302,088	\$ 10,264,775	2,007,818	114,079	2,716,282	3,356,490	2,070,106

<i>THOUSANDS OF DOLLARS</i>							
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
<i>Non-derivative financial liabilities</i>							
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

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

Notes to the Financial Statements continued

14. Financial instruments (continued)

(c) Interest rate risk:

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

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

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

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

<i>THOUSANDS OF DOLLARS</i>		
	2020	2019
Fixed rate instruments		
Financial assets	\$ 9,237,594	\$ 8,389,229
Financial liabilities	(8,654,415)	(8,265,394)
	\$ 583,179	\$ 123,835
Variable rate instruments		
Financial assets	\$ 844,402	\$ 967,301
Financial liabilities	(647,673)	(599,234)
	\$ 196,729	\$ 368,067

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 \$3,106,565 (2019 – \$793,222).

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 on profit or loss by \$2,823,989 (2019 – \$2,667,868). This analysis assumes that all other variables remain constant.

Notes to the Financial Statements continued

14. Financial instruments (continued)

(d) Credit risk:

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

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

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

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

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

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

THOUSANDS OF DOLLARS

December 31, 2020	Investments	Cash and cash equivalents & Loans to clients			
		Stage 1	Stage 1	Stage 2	Stage 3
Gross carrying amount	\$4,359,127	\$5,647,907	\$ -	\$ -	-
Loss allowance	20	425	-	-	-
Carrying amount	\$4,359,107	\$5,647,482	\$ -	\$ -	-

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	\$5,650,934	\$ 466	\$ -	-
Loss allowance	18	491	-	-	-
Carrying amount	\$3,621,924	\$5,650,443	\$ 466	\$ -	-

There was no loss allowance for financial assets at Stage 2 (2019 - \$466).



Notes to the Financial Statements continued

14. Financial instruments (continued)

(e) Other price risk and currency risk:

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

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

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

(f) Structured Accrual Note:

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 (2019 – \$98,194,100). The Authority has made related principal payments towards those contracts of \$59,169,100 (2019 – \$57,300,000). There are no remaining contractual payments towards the contract (2019 – \$1,869,100).

(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 observables for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

<i>THOUSANDS OF DOLLARS</i>		
	2020	2019
FVOCI financial assets		
Level 1	\$ -	\$ -
Level 2	4,359,127	3,581,650
Level 3	-	40,292
	\$ 4,359,127	\$ 3,621,942

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 were higher (lower), the estimated fair value would decrease (increase). The Authority does not hold any Level 3 financial assets as they were called during the year, with no gains or losses recorded upon disposal of the asset.



Notes to the Financial Statements continued

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:

<i>THOUSANDS OF DOLLARS</i>				
	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets carried at fair value				
Investments	\$ 4,359,127	\$ 4,359,127	\$ 3,621,942	\$ 3,621,942
Assets carried at amortized cost				
Cash and cash equivalents	\$ 701,217	\$ 701,217	\$ 737,334	\$ 737,334
Accrued interest and other receivables	75,387	75,387	83,679	83,679
Short-term loans to clients	143,185	143,185	221,965	221,965
Long-term loans to clients	4,803,080	5,619,577	4,691,610	5,307,063
	\$ 5,722,869	\$ 6,539,366	\$ 5,734,588	\$ 6,350,041
Liabilities carried at amortized cost				
Trade and other payables	\$ (36,974)	\$ (36,974)	\$ (36,186)	\$ (36,186)
Bank and short-term indebtedness	(609,926)	(609,926)	(564,278)	(564,278)
Due to clients	(120,070)	(120,070)	(110,947)	(110,947)
Long-term debt	(8,535,118)	(9,255,652)	(8,153,217)	(8,473,168)
	\$ (9,302,088)	\$ (10,022,622)	\$ (8,864,628)	\$ (9,184,579)

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

<i>THOUSANDS OF DOLLARS</i>				
	2020		2019	
	Level 1	Level 2	Level 1	Level 2
Accrued interest and other receivables	-	75,387	-	83,679
Short-term loans to clients	-	143,185	-	221,965
Long-term loans to clients	-	5,619,577	-	5,307,063
	\$ -	\$ 5,838,149	\$ -	\$ 5,612,707
Trade and other payables	\$ -	\$ (36,974)	\$ -	\$ (36,186)
Bank and short-term indebtedness	(609,926)	-	(564,278)	-
Due to clients	-	(120,070)	-	(110,947)
Long-term debt	-	(9,255,652)	-	(8,473,168)
	\$ (609,926)	\$ (9,412,696)	\$ (564,278)	\$ (8,620,301)



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 bank has imposed certain covenants in connection with the short-term loan facilities. As at December 31, 2020 and 2019, the Authority was in compliance with these covenants.

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, 2020 and 2019, the Authority has no assets or operations outside of British Columbia.

17. Related party transactions

Compensation of key management personnel and trustees, including executive management, during the years ended December 31, 2020 and 2019 were as follows:

<i>THOUSANDS OF DOLLARS</i>		
	2020	2019
Compensation	\$ 921	\$ 852

Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the years ended December 31, 2020 and 2019.

Notes to the Financial Statements continued

18. Employee future benefit obligations

The Authority and its employees contribute to the Municipal Pension Plan (Plan), a jointly trustee pension plan. A board of trustees, representing Plan members and employers, is responsible for overseeing the management of the Plan, including investment of the 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 about 213,111 active members and approximately 106,058 retired members. Active members include approximately 45,000 contributors from local governments.

Every three years an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of Plan funding. The most recent actuarial valuation of the entire Plan on December 31, 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 seventeen employees during the fiscal year, the Authority paid \$172,800 (2019 – \$149,678) for employer contributions and Authority employees paid \$154,982 (2019 – \$133,907) to the Plan. Employer contributions are expected to be consistent in future years with minor increases for inflation and Plan deficits.

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	DECEMBER 31, 2020 LONG-TERM DEBT OUTSTANDING	DECEMBER 31, 2019 LONG-TERM DEBT OUTSTANDING	REFERENCES
Issued by the Authority:							
62620DAA9	2010	June 01, 2020	4.450	\$ 435,000	\$ -	\$ 435,000	(1)
626209AEO	2015	October 15, 2020	1.750	190,000	-	190,000	(1)
626209JQ4	2016	April 19, 2021	1.650	515,000	515,000	515,000	(1)
626209JH4	2011	June 01, 2021	4.150	710,000	710,000	710,000	(1)
626209JK7	2012	June 01, 2022	3.350	290,000	290,000	290,000	(1)
62620DAD3	2017	December 01, 2022	2.150	500,000	500,000	500,000	(1)
62620DAE1	2018	April 23, 2023	2.600	410,000	410,000	410,000	(1)
626209JL5	2013	September 26, 2023	3.750	485,000	485,000	485,000	(1)
62620DAG6	2018	December 03, 2023	2.800	605,000	605,000	605,000	(1)
62620DAJ0	2019	June 03, 2024	2.150	800,000	800,000	800,000	(1)
626209JP6	2014	October 14, 2024	2.950	335,000	335,000	335,000	(1)
626209HG8	2004	December 02, 2024	5.350	50,000	50,000	50,000	(1)
626209HV5	2005	April 06, 2025	4.978	118,300	37,514	44,782	(1)
62620DAK7	2020	June 01, 2025	1.100	615,000	615,000	-	(1)
626209AD2	2015	October 02, 2025	2.650	530,000	530,000	125,000	(1)
626209HX1	2005	April 02, 2026	4.600	50,000	50,000	50,000	(1)
626209JR2	2016	April 19, 2026	2.500	610,000	610,000	610,000	(1)
626209JC5	2007	December 01, 2027	4.950	670,000	670,000	670,000	(1)
62620DAF8	2018	October 23, 2028	3.050	725,000	725,000	725,000	(1)
62620DAH4	2019	October 09, 2029	2.550	405,000	405,000	405,000	(1)
62620DAC5	2017	January 19, 2042	3.505	61,250	58,572	60,373	(1)
113	2011	March 25, 2021	3.560	2,300	2,300	2,300	(1) (2)
				<i>carried forward</i>	\$ 9,111,850	\$ 8,403,386	\$ 8,017,455

continued on next page

Schedule of Long-term Debt

Unaudited – for information purposes only

THOUSANDS OF DOLLARS						DECEMBER 31, 2020	DECEMBER 31, 2019	
ISSUE	YEAR OF ISSUE	MATURITY DATE	INTEREST RATE PERCENT	ORIGINAL AMOUNT	LONG-TERM DEBT OUTSTANDING	LONG-TERM DEBT OUTSTANDING	REFERENCES	
			<i>brought forward</i>	\$ 9,111,850	\$ 8,403,386	\$ 8,017,455		
Transferred from the Province of British Columbia:								
517 & 624	1999	November 30, 2023	7.875	4,561	4,561	4,561	(1) (3)	
Issued through the Federation of Canadian Municipalities:								
109	2010	January 29, 2020	1.830	500	-	25	(1) (4)	
119	2012	June 26, 2022	1.750	3,374	506	843	(1) (4)	
120	2012	June 29, 2022	0.300	2,000	2,000	2,000	(1) (4)	
125	2013	May 30, 2023	2.000	4,000	1,000	1,400	(1) (4)	
132	2015	June 12, 2025	2.250	7,408	3,333	4,074	(1) (4)	
134	2015	October 14, 2025	2.250	10,000	5,000	6,000	(1) (4)	
136	2015	November 30, 2025	2.250	4,629	2,315	2,778	(1) (4)	
144	2018	April 10, 2028	3.410	837	627	711	(1) (4)	
108	2009	November 16, 2029	2.230	1,769	817	907	(1) (4)	
128	2014	November 16, 2029	1.030	1,770	1,027	1,142	(1) (4)	
122	2012	November 01, 2032	2.000	1,999	1,199	1,299	(1) (4)	
123	2013	March 28, 2033	2.000	3,142	1,964	2,121	(1) (4)	
129	2014	July 31, 2034	2.000	10,000	7,000	7,500	(1) (4)	
135	2015	November 20, 2035	3.000	1,000	750	800	(1) (4)	
138	2016	September 01, 2036	2.000	10,000	8,000	8,500	(1) (4)	
148	2019	June 21, 2039	4.000	1,258	1,164	1,227	(1) (4)	
				63,686	36,702	41,327		
Issued through the Canada Mortgage and Housing Corporation:								
111	2010	October 01, 2025	3.350	10,187	3,968	4,686	(1) (5)	
114	2011	March 29, 2026	3.650	15,920	7,408	8,495	(1) (5)	
115	2011	March 29, 2031	3.890	10,200	6,550	7,020	(1) (5)	
				36,307	17,926	20,201		
Debt due to bondholders				\$ 9,216,404	8,462,575	8,083,544		
Unamortized premiums and discounts:					72,543	69,673		
Long-term debt					\$ 8,535,118	\$ 8,153,217		

References to Schedule of Long-term Debt

DECEMBER 31, 2020 AND 2019

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

<i>THOUSANDS OF DOLLARS (except per capita)</i>						
	BALANCE OUTSTANDING 2019	NEW LOANS	LOANS REPAID	BALANCE OUTSTANDING 2020	PRINCIPAL TO BE REPAID 2020	PRINCIPAL TO BE REPAID 2019
REGIONAL DISTRICTS					Note (a)	Note (a)
Alberni-Clayoquot	\$ 19,585	4,450	950	\$ 23,085	\$ 13,564	10,927
Bulkley-Nechako	9,491	-	674	8,817	5,807	6,316
Capital	344,387	11,380	33,433	322,334	216,013	230,455
Cariboo	32,905	-	2,813	30,092	19,994	21,526
Central Coast	73	-	23	50	17	25
Central Kootenay	55,372	2,170	4,019	53,523	31,044	31,612
Central Okanagan	123,607	-	12,622	110,985	70,216	78,778
Columbia Shuswap	56,761	845	3,498	54,108	30,321	31,547
Comox Valley	23,602	23,082	3,706	42,978	29,984	13,045
Cowichan Valley	55,163	250	3,923	51,490	34,956	37,376
East Kootenay	59,801	8,050	4,252	63,599	42,642	38,920
Fraser Valley	68,216	81	5,117	63,180	34,129	37,225
Fraser-Fort George	67,222	671	9,584	58,309	39,537	45,046
Kitimat-Stikine	28,418	-	1,587	26,831	18,530	19,830
Kootenay Boundary	41,348	733	2,249	39,832	24,330	25,262
Metro Vancouver (Note b)	2,168,640	354,120	195,562	2,327,198	1,611,083	1,456,973
Mount Waddington	2,049	-	169	1,880	1,078	1,172
Nanaimo	108,178	17,688	7,519	118,347	79,167	70,112
North Coast	13,753	500	989	13,264	7,895	8,162
North Okanagan	80,360	-	7,858	72,502	44,705	49,177
Northern Rockies	27,176	-	1,040	26,136	14,298	15,003
Okanagan-Similkameen	75,002	1,065	7,050	69,017	41,673	44,962
Peace River	81,181	-	7,946	73,235	44,784	49,815
qathet	10,779	10,000	385	20,394	12,779	5,650
Squamish-Lillooet	47,039	14,444	4,949	56,534	39,123	29,254
Strathcona	14,647	144	938	13,853	10,443	11,140
Sunshine Coast	25,147	-	3,434	21,713	14,835	16,873
Thompson-Nicola	106,074	8,060	10,791	103,343	70,998	72,381
OTHER						
CREST	24,159	-	3,216	20,943	16,977	19,726
E-COMM	74,471	-	14,024	60,447	39,889	49,061
TransLink	142,636	-	12,826	129,810	72,201	80,596
Hospital Districts	704,827	80,175	59,347	725,655	506,969	481,775
Expected Credit Losses	(459)			(404)		
	\$4,691,610	537,908	426,493	\$4,803,080	\$ 3,239,981	3,089,722

Note a: The Authority finances client 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. 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 \$4,803,080,000 and the Principal To Be Repaid of \$3,239,981,000 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 \$331,968,994 (2019 - \$382,304,407) 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 (except per capita)

	BALANCE OUTSTANDING 2019	NEW LOANS	LOANS REPAID	BALANCE OUTSTANDING 2020	PRINCIPAL TO BE REPAID 2020	PRINCIPAL TO BE REPAID 2019
REGIONAL HOSPITAL DISTRICTS						
Alberni-Clayoquot	\$ 1,637	-	953	\$ 684	\$ 317	769
Capital	161,664	596	20,363	141,897	115,796	129,141
Central Okanagan	83,985	-	5,521	78,464	47,365	50,030
Comox-Strathcona	82,204	-	8,173	74,031	62,833	70,692
Cowichan Valley	285	-	82	203	115	156
Fraser Valley	31,388	-	4,912	26,476	14,559	17,388
Fraser-Fort George	3,569	-	1,088	2,481	1,123	1,605
Kootenay East	870	-	112	758	487	568
Mount Waddington	907	-	209	698	490	604
Nanaimo	25,611	2,780	1,909	26,482	17,272	16,302
North Okanagan/Columbia-Shuswap	63,128	2,869	3,268	62,729	34,479	34,001
North West	29,177	5,748	2,290	32,635	21,882	18,675
Okanagan-Similkameen	206	68,182	140	68,248	53,252	95
Peace River	65,858	-	2,769	63,089	34,459	32,546
Powell River	18,171	-	941	17,230	10,511	11,262
Sea to Sky	4,369	-	375	3,994	2,239	2,487
Sunshine Coast	7,387	-	807	6,580	3,517	4,020
Thompson	123,955	-	4,979	118,976	86,273	91,066
West Kootenay-Boundary	456	-	456	-	-	368
	\$ 704,827	80,175	59,347	\$ 725,655	\$ 506,969	481,775

Five-Year Review Unaudited – for information purposes only

THOUSANDS OF DOLLARS	2020	2019	2018	2017	2016
ASSETS					
Cash and cash equivalents	\$ 701,217	\$ 737,334	\$ 592,367	\$ 319,093	\$ 203,619
Investments	4,359,127	3,621,942	3,600,171	3,751,880	3,613,272
Accrued interest and other receivables	75,387	83,679	78,841	91,763	83,799
Short-term loans to clients	143,185	221,965	257,601	279,409	318,188
Long-term loans to clients	4,803,080	4,691,610	4,714,743	4,401,677	4,288,088
Property and equipment	1,316	1,528	245	299	354
Total Assets	\$ 10,083,312	\$ 9,358,058	\$ 9,243,968	\$ 8,844,121	\$ 8,507,320
LIABILITIES					
Trade and other payables	\$ 36,974	\$ 36,186	\$ 36,470	\$ 35,316	\$ 34,082
Bank and short-term indebtedness	609,926	564,278	674,165	699,420	699,676
Lease liability	1,222	1,363	-	-	-
Due to clients	120,070	110,947	107,486	108,708	107,910
Derivative contracts	-	-	-	8,067	20,040
Long-term debt	8,535,118	8,153,217	8,135,653	7,642,664	7,373,389
Total Liabilities	9,303,310	8,865,991	8,953,774	8,494,175	8,235,097
Equity	780,002	492,067	290,194	349,946	272,223
Total Liabilities and Equity	\$ 10,083,312	\$ 9,358,058	\$ 9,243,968	\$ 8,844,121	\$ 8,507,320
REVENUE					
Interest from loans to clients	\$ 231,749	\$ 244,136	\$ 252,990	\$ 260,430	\$ 263,378
Investment income	141,398	141,113	139,771	137,158	133,227
Amortization of premiums on long-term debt	16,498	16,533	16,748	19,036	12,078
Financial service fees	2,631	2,308	2,252	2,442	2,415
Recoveries from new issues	-	8	8	-	8
Operating levy	438	435	412	371	295
Total Revenue	392,714	404,533	412,181	419,437	411,401
EXPENSE					
Interest on long-term debt	247,376	253,662	263,946	276,768	269,006
Interest on bank and short-term indebtedness	3,871	10,842	10,308	5,451	3,867
Interest on lease liability	38	42	-	-	-
Administration	3,623	3,390	3,182	3,074	3,372
Investment income due to clients	6,336	4,710	2,597	1,497	1,351
Impairment (gain) loss on investments and loans to clients	(66)	(109)	285	-	-
Debt management and marketing	56	122	112	110	105
Loss (gain) from change in fair value of derivative contracts	-	-	29	(574)	12,545
Total Expense	261,234	272,659	280,459	286,326	290,246
Profit for the year	131,480	131,874	131,722	133,111	121,155
Equity, beginning of the year	492,067	290,194	349,946	272,223	311,938
Adjustment on initial application of IFRS 9	-	-	(306)	-	-
Allocations to clients	(115,158)	(109,802)	(117,409)	(118,703)	(112,146)
Unrealized gains (losses) from change in fair value of FVOCI investments	271,612	179,805	(73,755)	63,315	(48,724)
Net remeasurement on loss allowance	1	(4)	(4)	-	-
Equity, end of the year	\$ 780,002	\$ 492,067	\$ 290,194	\$ 349,946	\$ 272,223

Bond Issues Unaudited – for information purposes only

CANADIAN DOLLAR BONDS ISSUED IN CANADA

CUSIP/ ISSUE	DESCRIPTION	DATED	AUTHORIZED \$(000)	OUTSTANDING DECEMBER 31, 2020 \$(000)	INTEREST	CUSIP / ISSUE	DESCRIPTION	DATED	AUTHORIZED \$(000)	OUTSTANDING DECEMBER 31, 2020 \$(000)	INTEREST
CANADIAN DOLLAR BONDS ISSUED IN CANADA											
626209JQ4	1.650% Debentures due April 19, 2021	March 01, 2016	515,000	515,000	Semi-annual April 19 October 19	62620DAK7	1.100% Debentures due June 01, 2025	June 01, 2025	615,000	615,000	Semi-annual June 01 December 01
626209JH4	4.150% Debentures due June 01, 2021	April 04, 2011	710,000	710,000	Semi-annual June 01 December 01	626209AD2	2.650% Debentures due October 02, 2025	October 02, 2015	530,000	530,000	Semi-annual April 02 October 02
626209JK7	3.350% Debentures due June 01, 2022	April 11, 2012	290,000	290,000	Semi-annual June 01 December 01	626209HX1	4.600% Debentures due April 02, 2026	October 13, 2005	50,000	50,000	Semi-annual April 02 October 02
62620DAD3	2.150% Debentures due December 01, 2022	December 01, 2017	500,000	500,000	Semi-annual June 01 December 01	626209JR2	2.500% Debentures due April 19, 2026	April 19, 2016	610,000	610,000	Semi-annual April 19 October 19
62620DAE1	2.600% Debentures due April 23, 2023	April 23, 2018	410,000	410,000	Semi-annual April 23 October 23	626209JC5	4.950% Debentures due December 01, 2027	November 01, 2007	670,000	670,000	Semi-annual June 01 December 01
626209JL5	3.750% Debentures due September 26, 2023	September 26, 2013	485,000	485,000	Semi-annual March 26 September 26	62620DAF8	3.050% Debentures due October 23, 2028	April 23, 2018	725,000	725,000	Semi-annual April 23 October 23
62620DAG6	2.800% Debentures due December 03, 2023	December 03, 2018	605,000	605,000	Semi-annual June 03 December 03	62620DAH4	2.550% Debentures Due October 09, 2029	April 09, 2019	405,000	405,000	Semi-annual April 09 October 09
62620DAJ0	2.150% Debentures due June 03, 2024	June 03, 2019	800,000	800,000	Semi-annual June 03 December 03	62620DAC5	3.505% Amortizing Debentures due January 19, 2042	January 19, 2017	61,250	58,572	Semi-annual January 19 July 19
626209JP6	2.950% Debentures due October 14, 2024	October 14, 2014	335,000	335,000	Semi-annual April 14 October 14						
626209HG8	5.350% Debentures due December 02, 2024	October 25, 2004	50,000	50,000	Semi-annual June 02 December 02						
626209HV5	4.978% Amortizing Debentures due April 06, 2025	April 06, 2005	118,300	37,514	Semi-annual April 06 October 06	113	3.560% Debentures due March 25, 2021	March 25, 2011	2,300	2,300	Semi-annual March 25 September 25

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

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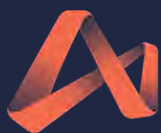
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