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**MUNICIPAL FINANCING  
CORPORATION OF  
SASKATCHEWAN**

**2005 ANNUAL REPORT**

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## LETTER OF TRANSMITTAL

Regina, Saskatchewan  
March 20, 2006

To Her Honour  
The Honourable Lynda M. Haverstock  
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Municipal Financing Corporation of Saskatchewan for the year ended December 31, 2005, in accordance with **The Municipal Financing Corporation Act**. The financial statements included in this Annual Report are in the form approved by the Treasury Board and have been duly certified by the Corporation's auditors.

I have the honour to be, Madam,

Your obedient servant,

/s/ Andrew Thomson

Andrew Thomson  
Minister of Finance  
And Minister Responsible  
Municipal Financing Corporation of Saskatchewan

## **MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN**

### **BOARD OF DIRECTORS**

Honourable Andrew Thomson  
Chairperson

Honourable Harry Van Mulligen

### **OFFICERS**

Mr. Rae Haverstock  
General Manager

Ms. Margaret Johannsson  
Assistant General Manager

Mr. Jim Fallows  
Treasurer

Ms. Marsha Loraas  
Secretary

### **CONTACT INFORMATION**

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e-mail address:	<a href="mailto:mfc@finance.gov.sk.ca">mfc@finance.gov.sk.ca</a>

## **MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN**

### **HISTORY AND CURRENT HIGHLIGHTS – 2005**

The Municipal Financing Corporation of Saskatchewan (the Corporation) was established to assist in making capital funds available for the financing of school, hospital and other essential construction and local improvement projects in cities, towns, villages and rural areas throughout the Province. The Corporation may borrow directly from private lending institutions or through the Department of Finance. The Corporation uses the funds borrowed to purchase a portion of the approved debentures sold each year by Saskatchewan local governments.

During 2005, the Corporation participated in the financing of twelve projects in nine communities by purchasing \$4.3 million of municipal debentures. Eight of the debentures financed sewer and water projects, while two pertained to recreation facilities and the other two concerned a health facility and a town library.

The Corporation's debenture holdings at December 31, 2005 totaled \$23.8 million, up \$2.6 million from the total at December 31, 2004.

The Corporation recorded net earnings of \$927,000 in 2005, compared to earnings of \$148,000 for 2004. The improvement was caused by a reduction in interest expense that resulted from a debenture payable that matured late in 2004. The \$927,000 surplus was not significantly different than the amount budgeted (see note 8 to the financial statements).

For 2006, the Corporation expects to record a surplus, however it may be slightly lower than the 2005 result due to an expected increase in interest expense and the maturity of some old municipal debentures that bear interest at relatively higher rates.

The Municipal Financing Corporation of Saskatchewan is administered by a Board of Directors through the use of staff and facilities provided by the Department of Finance. The Corporation incurred \$25,000 of administrative expenses in 2005. These expenses were for audit fees and the reimbursement of the costs to the Department of Finance of providing administrative services. The Directors of the Municipal Financing Corporation of Saskatchewan do not receive fees and, with the exception of interest paid on borrowed funds, the Corporation had no other expenses in the current year.

A table showing results of operations for 2005, as compared to the previous year, as well as a detailed listing of debentures purchased in the current year is presented on page 4.

**MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN**

**COMPARATIVE TABLE OF OPERATIONS  
FOR THE YEAR ENDED DECEMBER 31**

	<u>2005</u>	<u>2004</u>
	(thousands of dollars)	
Amount of debentures offered to the Corporation	\$ 4,040	\$ 1,550
Prior year's purchase commitments carried forward	<u>275</u>	<u>2,870</u>
Total purchase commitments for the year	4,315	4,420
Prior year's purchase commitments from which the Corporation was released	0	2,870
Purchases completed	<u>4,315</u>	<u>1,275</u>
Purchase commitments outstanding at the year end	<u><u>\$ 0</u></u>	<u><u>\$ 275</u></u>

**DEBENTURES PURCHASED IN 2005**  
(thousands of dollars)

Village of Grand Coulee	\$ 75
Town of Lumsden	200
Resort Village of Manitou Beach	1,057
Town of Dalmeny	125
Town of Waldheim	450
Town of Cudworth	550
Town of Macklin	75
Town of Martensville	1,653
Village of Cadillac	130
	<u><u>\$ 4,315</u></u>

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management has prepared the financial statements of the Municipal Financing Corporation of Saskatchewan in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the previous year. Management is responsible for the reliability and integrity of the financial statements and all other information contained in this Annual Report.

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

Dudley and Company LLP, the Corporation's external auditors, have reviewed the systems of internal control and audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express their opinion on the financial statements. Their report appears on the following page.

The financial statements have been examined and approved by the Board of Directors.

/s/ Rae Haverstock

Rae Haverstock  
General Manager

March 20, 2006

/s/ Jim Fallows

Jim Fallows, CA  
Treasurer

## AUDITOR'S REPORT

To the Members of the Legislative Assembly  
Province of Saskatchewan

We have audited the statement of financial position of the Municipal Financing Corporation of Saskatchewan as at December 31, 2005 and the statements of earnings and reinvested earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

/s/ Dudley and Company LLP

Regina, Canada  
February 7, 2006

Dudley and Company LLP  
Chartered Accountants

**MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN**

**STATEMENT OF FINANCIAL POSITION**

**As at December 31**

	<u>2005</u>	<u>2004</u>
	(thousands of dollars)	
<b>ASSETS</b>		
Current assets		
Due from the General Revenue Fund (Note 3)	\$ 53	\$ 45
Interest receivable	644	626
Municipal debentures receivable within one year	2,293	1,716
	2,990	2,387
Investments in municipal debentures (Note 4)	21,473	19,525
Deferred financing charges	97	41
	<u>\$ 24,560</u>	<u>\$ 21,953</u>
 <b>LIABILITIES AND PROVINCE'S EQUITY</b>		
Current Liabilities		
Interest payable and accrued liabilities	\$ 149	\$ 152
Debt payable within one year	3,273	6,482
	3,422	6,634
Long term debt payable (Note 6)	9,840	4,948
Province of Saskatchewan's Equity		
Reinvested earnings	11,298	10,371
	<u>\$ 24,560</u>	<u>\$ 21,953</u>

See accompanying notes to the financial statements



**MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN**

**STATEMENT OF EARNINGS AND REINVESTED EARNINGS**

**For the Year Ended December 31**

	<u>2005</u>	<u>2004</u>
	(thousands of dollars)	
<b>Revenue</b>		
Investment income - municipal debentures	\$ 1,411	\$ 1,432
Investment income - short term investments and cash balances	<u>16</u>	<u>52</u>
	<u>1,427</u>	<u>1,484</u>
<b>Expenses</b>		
Interest on debt	475	1,311
Administration	<u>25</u>	<u>25</u>
	<u>500</u>	<u>1,336</u>
<b>Net Earnings</b>	927	148
<b>Reinvested earnings, beginning of year</b>	<u>10,371</u>	<u>10,223</u>
<b>Reinvested earnings, end of year</b>	<u>\$ 11,298</u>	<u>\$ 10,371</u>

(See accompanying notes)

**MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN**

**STATEMENT OF CASH FLOWS**

**For the Year Ended December 31**

	<u>2005</u>	<u>2004</u>
	(thousands of dollars)	
<b>Operating Activities</b>		
Interest received from municipal debentures	\$ 1,432	\$ 1,436
Interest received from short term investments	7	51
Interest paid on debt	(402)	(1,481)
Payments to suppliers	(44)	(5)
	<u>993</u>	<u>1</u>
Cash provided by operating activities	<u>993</u>	<u>1</u>
<b>Investing Activities</b>		
Purchase of municipal debentures	(4,315)	(1,275)
Amortization of discounts and premiums	0	(1)
Proceeds from maturing municipal debentures	1,772	1,658
	<u>(2,543)</u>	<u>382</u>
Cash provided by (used in) investing activities	<u>(2,543)</u>	<u>382</u>
<b>Financing Activities</b>		
Issuance of long term debt	5,000	0
Repayment of long term debt	(100)	(9,441)
Issuance of short term debt	(3,278)	6,482
Deferred financing charges	(64)	0
	<u>1,558</u>	<u>(2,959)</u>
Cash provided by (used in) financing activities	<u>1,558</u>	<u>(2,959)</u>
Net increase (decrease) in cash equivalents during the year	8	(2,576)
<b>Cash equivalents, beginning of year</b>	<u>45</u>	<u>2,621</u>
<b>Cash equivalents, end of year</b>	<u>\$ 53</u>	<u>\$ 45</u>

(See accompanying notes)

# MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

## NOTES TO FINANCIAL STATEMENTS

December 31, 2005

### 1. Significant Accounting Policies

The Corporation's accounting policies are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

#### Investments in Municipal Debentures

Investments in municipal debentures are carried at amortized cost. The Corporation sometimes purchases debentures at a premium or discount where the interest rate yield required by the Corporation varies from the coupon interest rate offered by the local governments. Premiums and discounts in excess of \$250 on the investment's purchase date are amortized to income using the straight-line method over the life of the investment. In this way, effective income derived from each debenture is adjusted to equal the Corporation's required yield for that debenture to its maturity.

#### Deferred Financing Charges

Deferred financing charges relate to long term debt payable and are amortized on a straight-line basis over the term of the loan.

#### Market Value of Short term Financial Instruments

For certain of the Corporation's financial instruments, the carrying amounts approximate fair value due to the immediate or short term maturity of these financial instruments. These short term financial instruments include amounts due from the General Revenue Fund, interest receivable, municipal debentures receivable within one year, interest payable and accrued liabilities, and debt payable within one year.

### 2. Status of the Corporation

The Municipal Financing Corporation of Saskatchewan was established in 1969 pursuant to the provisions of **The Municipal Financing Corporation Act**. The Corporation's objective is to assist municipalities in financing their capital requirements.

The Corporation is a Provincial Crown corporation and is therefore not subject to Federal or Provincial income tax but is subject to Provincial corporation capital tax.

### 3. Due from General Revenue Fund

The Corporation's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

The Corporation's earned interest is calculated and paid quarterly by the General Revenue Fund to the Corporation using the General Revenue Fund's thirty day borrowing rate and the Fund's average daily bank account balance.

**MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2005**

**4. Investments in Municipal Debentures**

The Corporation invests in fixed rate debentures issued by cities, towns, villages and rural municipalities throughout the Province of Saskatchewan. All debentures purchased by the Corporation must be approved by the Saskatchewan Municipal Board.

The Corporation has an investment in 70 (2004 - 60) debentures issued by 49 (2004 - 46) issuers with a weighted average yield of 6.24% (2004 – 6.56%) and maturity dates ranging from 2006 through 2025.

The carrying amount invested by issuer category is as follows:

	<u><b>2005</b></u>	<u><b>2004</b></u>
	(thousands of dollars)	
Cities	\$ 9,673	\$ 10,059
Rural Municipalities	134	151
Towns	10,707	8,729
Villages	<u>3,252</u>	<u>2,302</u>
	23,766	21,241
Receivable within one year	<u>2,293</u>	<u>1,716</u>
	<u><u>\$ 21,473</u></u>	<u><u>\$ 19,525</u></u>

The fair value of these debentures is \$26.7 million (2004 - \$23.5 million). This fair value is determined by discounting the debentures' future cash flows using investment rates presently available to the Corporation for investments with similar terms and remaining maturity, less costs of settlement.

The Corporation's policy is to permit borrowers to redeem debentures prior to maturity. The redemption price is set at the face value of the debenture plus 50% of the difference between the face value of the debenture and its fair market value. No debentures were redeemed during 2004 or 2005.

**5. Related Party Transactions**

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan. Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions are as follows:

	<u><b>2005</b></u>	<u><b>2004</b></u>
	(thousands of dollars)	
Interest on debt	\$ 475	\$ 1,311
Administration	20	20

Other amounts due to related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

**MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2005**

**6. Debt**

<u>Maturity Date</u>	<u>Rate (%)</u>	<u>2005</u>	<u>2004</u>
		(thousands of dollars)	
<b>General Revenue Fund</b>			
June 17, 2013	4.75	\$ 5,000	\$ 5,000
December 3, 2015	4.25	<u>5,000</u>	<u>-</u>
		10,000	5,000
Less: sinking fund balance		<u>(160)</u>	<u>(52)</u>
Long term debt		<u>\$ 9,840</u>	<u>\$ 4,948</u>

The fair value of long term debt is \$10.3 million (2004 - \$5.1 million). This amount is determined by discounting the debenture's future cash flows using borrowing rates presently available to the Corporation for debt with similar terms and remaining maturity, less costs of settlement.

a) sinking funds

Under conditions attached to the debentures, the Corporation is required to pay annually into sinking funds administered by the Saskatchewan Department of Finance a minimum of one per cent of the original principal.

b) principal repayments and sinking fund installments

Principal payments and sinking fund installments for the next five years are as follows (in thousands of dollars):

2006	-	\$	100
2007	-		100
2008	-		100
2009	-		100
2010	-		100

c) short term debt

The Corporation sometimes borrows funds on a short term basis from the GRF. At December 31, 2005, an amount of \$3,273 thousand (2004 - \$6,482 thousand) was due to the GRF at an interest rate of 3.44% (2004 - 2.50%).

**MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN**

**NOTES TO FINANCIAL STATEMENTS**

**December 31, 2005**

**7. Interest Rate Risk**

The Corporation is exposed to interest rate risk due to the nature of its operations. Interest rate risk is created when the maturity dates of an entity's assets and liabilities are not precisely matched. The following table shows the matching of the Corporation's assets and liabilities:

<b>Year of Maturity</b>	<b>Financial Assets</b>	<b>Financial Liabilities</b>	<b>Difference 2005</b>	<b>Difference 2004</b>
	(thousands of dollars)			
2005	\$ -	\$ -	\$ -	\$ (4,247)
2006	2,990	3,422	(432)	1,996
2007	2,439	0	2,439	2,117
2008	2,434	0	2,434	2,097
2009	2,201	0	2,201	1,848
2010	2,129	0	2,129	-
Thereafter	12,367	9,840	2,527	6,560
	<u>\$ 24,560</u>	<u>\$ 13,262</u>	<u>\$ 11,298</u>	<u>\$ 10,371</u>

The effective interest rates on the Corporation's assets and liabilities are as follows:

Investments in municipal debentures	6.24%
Short term debt	3.44%
Long term debt	4.61%

**8. Operations Budget**

	<u>Budget 2005</u>
	(thousands of dollars)
Revenue	
Investment income - municipal debentures	\$ 1,420
Investment income - short term	
Investments and cash balances	<u>5</u>
	<u>1,425</u>
Expenses	
Interest on debt	500
Administration	<u>25</u>
	<u>525</u>
Net earnings	<u>\$ 900</u>