



Newfoundland and Labrador Municipal Financing Corporation

Government of Newfoundland and Labrador
Department of Finance

Annual Report

31 March, 2007

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**NEWFOUNDLAND AND LABRADOR MUNICIPAL
FINANCING CORPORATION**

Department of Finance
Debt Management Division
P. O. Box 8700
St. John's, NL
A1B 4J6

February 25, 2008

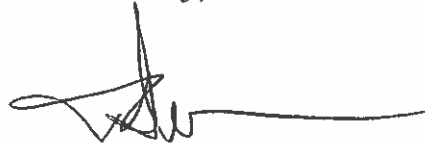
Honourable Thomas W. Marshall, Q.C.
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, NL
A1B 4J6

Dear Minister Marshall:

In accordance with Section 13 of the *Municipal Financing Corporation Act*, it is my pleasure to submit the annual report of the Newfoundland and Labrador Municipal Financing Corporation. This report summarizes the Corporation's activities for the fiscal year ended March 31, 2007.

The Board of Directors has approved the financial statements and information contained in this annual report, and the Board is accountable for the results reported herein.

Sincerely,



Terry Paddon
Chairman of the Board

HOW THE CORPORATION FUNCTIONS

Authority

The Newfoundland and Labrador Municipal Financing Corporation was established in 1964 by the *Municipal Financing Corporation Act* and reports to Government through the Minister of Finance.

Purpose

The Corporation was established to consolidate the long-term borrowing programs of all municipalities in one central Crown agency.

Mandate

To provide long-term financing to meet the capital requirements of municipalities.

Process

Each year the Department of Municipal Affairs receives capital works requests from the Province's municipalities. From these requests, Government approves the projects it is prepared to support and the percentage of the cost it is prepared to share.

Once these capital works are approved and the projects are ready to commence, Government issues temporary guarantees to the banks or other financial institutions, pursuant to the *Local Authority Guarantee Act, 2005*, for those municipalities requiring interim financings. As each project is completed, the municipalities would then arrange long-term financing to repay and structure their interim borrowing. Grants are then provided to the municipalities over the loan term by the Department of Municipal Affairs to repay the Province's share of the long-term financing. Loans to municipalities for water and sewer projects are for a term of fifteen years, whereas loans for paving, recreation and waste disposal are for ten years.

Historically, these long-term municipal borrowings were arranged directly with the Corporation. The Corporation borrowed from time to time in the Canadian capital market and the borrowing costs, together with an administrative charge, formed the basis for the interest rates charged by the Corporation on its loans to municipalities. In order to ensure that funds were available to meet its debt obligations, the Corporation matched, as closely as possible, the terms of its borrowing program to the lending program for municipalities. All of the Corporation's borrowings are guaranteed as to principal, interest and sinking fund payments, if any, by the Province.

In recent years, Government has permitted those municipalities which are capable of financing their capital programs with other financial institutions to do so. As a result, most municipalities have been able to obtain independent long-term financing, including the refinancing of existing loans with the Corporation. These independent financings have been arranged by those municipalities primarily with the banks, and without Government guarantees. In those situations, the Corporation had been required to finance only that portion of municipal loans which the Province had agreed to share as part of the initial financing arrangements.

As a consequence, Government decided that, commencing with the 2005-06 fiscal year, it would no longer finance its portion of the cost of completed municipal capital projects through the Corporation. Instead, Government will repay its agreed upon share of each project from funding appropriated for this purpose in the Province's annual Budget. As a result, the Corporation will no longer borrow in the capital markets to finance municipal loans, and will wind up operations as it collects its loans receivable and repays its outstanding debenture debt.

Board of Directors

The Board of Directors of the Corporation is comprised of employees of the Province of Newfoundland and Labrador. The incumbents of certain senior Government public service positions, designated by Executive Council, are automatically members of the Board. At 31 March, 2007 the Board of Directors included:

Mr. Terry Paddon (Chair)
Deputy Minister of Finance

Mr. Baxter Rose
Deputy Minister of Municipal
Affairs

Ms. Cathy Duke
Deputy Minister of Innovation,
Trade and Rural Development

Ms. Donna Brewer
Assistant Deputy Minister
Department of Finance

Mr. Earl Saunders
(Corporate Secretary)
Director of Debt Management
Department of Finance

Mr. Paul Myrden
Manager of Capital Markets &
Financial Assistance Programs
Department of Finance

CORPORATE INFORMATION

Mailing Address:

Newfoundland and Labrador
Municipal Financing Corporation
c/o Department of Finance
Confederation Building
East Block, Main Floor
P. O. Box 8700
St. John's, NL
A1B 4J6

Office Location:

Debt Management Division
Department of Finance
Confederation Building
East Block, Main Floor
Telephone: (709) 729-6686
Fax: (709) 729-2095

Departmental Website:

www.gov.nl.ca/fin

REPORT FROM THE CHAIR

It is my pleasure to review the operations of the Corporation for the 2006-07 fiscal year and to present the Annual Report.

During the year, the loan portfolio of the Corporation decreased from \$216.9 million to \$185.7 million. Payments on loans due from municipalities totaled \$31.2 million.

The net debenture debt of the Corporation decreased from \$233.8 million to \$197.8 million due to loan repayments of \$35.1 million during the year and an increase of \$0.9 million in sinking fund assets. At year end the Corporation had \$11.0 million invested in sinking funds established for the repayment of certain debenture debt.

An important issue for the Corporation, and the Province as guarantor of the Corporation's debenture debt, is the level of municipal loan arrears. Loan arrears at March 31, 2007 amounted to \$5.2 million (2006, \$4.9 million). The Corporation continues to collect a significant amount of arrears through the interception of municipal operating grants and allocations from a Reserve Fund established with the Corporation and funded by the Province to assist towns most in need. Subject to the approval of the Minister of Finance, the Fund is available to be allocated as the Department of Municipal Affairs completes negotiations with town councils to determine the eligible levels of financial assistance towards arrears. As no amounts were allocated during the 2006-07 fiscal year, the Reserve Fund balance of \$1.8 million as at March 31, 2007 was unchanged from the previous year-end. In addition, the Department of Municipal Affairs has continued other measures to address the financial condition of municipalities, including the provision of financial expertise, administration of certain town's affairs and, in many cases, the suspension of further capital funding.

Government has decided that, going forward, the Corporation will not be used as a vehicle to finance the Province's share of the cost of municipal capital projects. Since most of the Province's municipalities already arrange long-term financing from banks and other financial institutions, the Corporation will eventually wind up operations as it collects the loan portfolio and retires its debenture debt.

I would like to acknowledge the contribution of staff and directors, as well as support provided by the Departments of Justice, Municipal Affairs and Finance towards the operation and management of the Corporation.

TERRY PADDON
Chair

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements of the Newfoundland and Labrador Municipal Financing Corporation are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. The financial information presented elsewhere in the Annual Report is consistent with the financial statements and the underlying information from which the financial statements were prepared.

The Auditor General of Newfoundland and Labrador, appointed as the external auditor under the *Municipal Financing Corporation Act*, performed an audit on the financial statements in accordance with Canadian generally accepted auditing standards. The Auditor's Report attached to the financial statements outlines the scope of the examination and contains the Auditor General's opinion on the Corporation's financial statements.

AUDITOR'S REPORT

**NEWFOUNDLAND AND LABRADOR
MUNICIPAL FINANCING CORPORATION**

FINANCIAL STATEMENTS

31 MARCH 2007



OFFICE OF THE AUDITOR GENERAL
St. John's, Newfoundland and Labrador

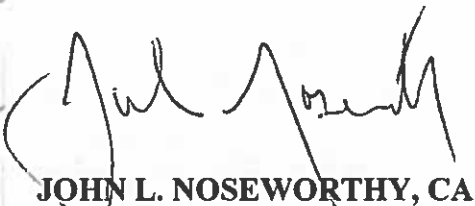
AUDITOR'S REPORT

To the Board of Directors
Newfoundland and Labrador Municipal Financing
Corporation
St. John's, Newfoundland and Labrador

I have audited the balance sheet of the Newfoundland and Labrador Municipal Financing Corporation as at 31 March 2007 and the statements of revenues, expenses and surplus, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 March 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



JOHN L. NOSEWORTHY, CA
Auditor General


St. John's, Newfoundland and Labrador
14 June 2007

**NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
BALANCE SHEET**

| 31 March | 2007 | 2006 |
|-----------------------------------------------------|---------------------|---------------------|
| | (000's) | (000's) |
| ASSETS | | |
| Current | | |
| Cash and term deposits | \$ 1,742 | \$ 1,002 |
| Investment - coupons (at cost) | 2,410 | 3,898 |
| - earned interest receivable | 2,852 | 3,190 |
| Accounts receivable | 5,235 | 4,923 |
| Accrued interest receivable | 2,019 | 2,632 |
| <u>Current portion of loans receivable (Note 2)</u> | <u>28,542</u> | <u>31,231</u> |
| | 42,800 | 46,876 |
| Long-term investment - coupons | 4,138 | 6,547 |
| Long-term loans receivable (Note 2) | 157,160 | 185,676 |
| <u>Deferred charges (Note 3)</u> | <u>531</u> | <u>692</u> |
| | \$ 204,629 | \$ 239,791 |
| LIABILITIES AND DEFICIT | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 78 | \$ 65 |
| Accrued interest payable | 2,805 | 3,603 |
| Current portion of debenture debt (Note 4) | 46,165 | 35,098 |
| <u>Current portion of deferred revenue (Note 5)</u> | <u>181</u> | <u>270</u> |
| | 49,229 | 39,036 |
| Long-term debenture debt (Note 4) | 151,589 | 198,682 |
| Deferred revenue (Note 5) | 235 | 416 |
| <u>Reserve fund (Note 6)</u> | <u>1,770</u> | <u>1,770</u> |
| | 202,823 | 239,904 |
| <u>Surplus (deficit)</u> | <u>1,806</u> | <u>(113)</u> |
| | \$ 204,629 | \$ 239,791 |

See accompanying notes

Signed on behalf of the Board of Directors:



Chairperson



Director

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
STATEMENT OF REVENUES, EXPENSES AND SURPLUS

| For the Year Ended 31 March | 2007 | 2006 |
|---------------------------------------------|-----------------|-----------------|
| | (000's) | (000's) |
| REVENUES | | |
| Interest on loans to municipal corporations | \$ 16,086 | \$ 19,104 |
| Sinking fund income | 628 | 577 |
| Short-term interest | 560 | 796 |
| Amortization of deferred revenue: | | |
| Prepayment penalties | 270 | 471 |
| | <u>17,544</u> | <u>20,948</u> |
| EXPENSES | | |
| Administrative and miscellaneous | 218 | 159 |
| Amortization of deferred charges: | | |
| Issue expenses on debenture debt | 117 | 132 |
| Premiums and discounts on debenture debt | 44 | 49 |
| Interest on long-term debt | 15,246 | 18,024 |
| | <u>15,625</u> | <u>18,364</u> |
| Excess of revenues over expenses | 1,919 | 2,584 |
| Deficit, beginning of year | (113) | (2,697) |
| Surplus (deficit), end of year | \$ 1,806 | \$ (113) |

See accompanying notes

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
STATEMENT OF CASH FLOWS

For the Year Ended 31 March

2007

2006

(000's)

(000's)

Cash flows from operating activities

| | | |
|----------------------------------------------------------|--------------|------------|
| Excess of revenues over expenses | \$ 1,919 | \$ 2,584 |
| Add (deduct) non-cash items: | | |
| Sinking fund income | (628) | (577) |
| Amortization of prepayment penalties | (270) | (471) |
| Accrued interest income on coupons | (425) | (589) |
| Amortization of issue expenses on debenture debt | 117 | 132 |
| Amortization of premiums and discounts on debenture debt | 44 | 49 |
| | 757 | 1,128 |
| <u>Change in non-cash working capital</u> | <u>(484)</u> | <u>718</u> |
| | 273 | 1,846 |

Cash flows from financing activities

| | | |
|-----------------------------------------------------------|----------|----------------|
| Retirement of debentures | (35,098) | (39,951) |
| Sinking fund payments | (300) | (300) |
| Prepayment penalties | - | 180 |
| <u>Reserve fund allocations to municipal corporations</u> | <u>-</u> | <u>(1,022)</u> |
| | (35,398) | (41,093) |

Cash flows from investing activities

| | | |
|-----------------------------------------------------------|---------------|---------------|
| Investment - coupons purchased | - | (790) |
| Investment - coupons redeemed | 4,660 | 5,894 |
| Loans to municipal corporations | - | (4,195) |
| <u>Loan payments received from municipal corporations</u> | <u>31,205</u> | <u>34,605</u> |
| | 35,865 | 35,514 |

Increase (decrease) in cash and term deposits 740 (3,733)

Cash and term deposits, beginning of year 1,002 4,735

Cash and term deposits, end of year \$ 1,742 \$ 1,002

See accompanying notes

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
NOTES TO FINANCIAL STATEMENTS
31 March 2007

Authority

Newfoundland and Labrador Municipal Financing Corporation (the Corporation) was created by the *Municipal Financing Corporation Act*. The Corporation's primary function is to provide long-term financing for the capital requirements of municipal corporations by the issuance of its securities, and relending the funds to municipal corporations. The Corporation's affairs are managed by a Board of Directors appointed by the Lieutenant-Governor in Council. All board members are full-time employees of the Province of Newfoundland and Labrador (the Province).

1. Significant accounting policies

These financial statements have been prepared by the Corporation's management in accordance with Canadian generally accepted accounting principles. Outlined below are the significant accounting policies followed.

(a) Premiums, discounts and issue expenses on debenture debt

Premiums, discounts and issue expenses are deferred and amortized on a straight line basis over the life of the debenture issue to which they relate. In the case of the early retirement of debenture debt, a proportionate amount of the deferred balance is included with the gain or loss in the determination of net income for the period.

(b) Deferred revenue

Penalties are charged when municipal corporations prepay all or a portion of their loans with the Corporation. These penalties are deferred and amortized on a straight line basis over the average years remaining for these loans prior to payout.

2. Loans receivable

| | 2007 (000's) | 2006 (000's) |
|----------------------------------------------|-------------------|-------------------|
| Loans receivable from municipal corporations | \$ 185,702 | \$ 216,907 |
| Less: current portion | (28,542) | (31,231) |
| <u>Long-term portion</u> | <u>\$ 157,160</u> | <u>\$ 185,676</u> |

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
NOTES TO FINANCIAL STATEMENTS
31 March 2007

2. Loans receivable (cont.)

Loans to municipal corporations are made on the security of their debentures. Provisions exist for the recovery from the Province of any defaults by municipal corporations. Therefore, no allowance for doubtful accounts has been provided.

Principal payments receivable in each of the next five (5) years are as follows:

| <u>Year</u> | <u>Amount</u> (000's) |
|-------------|--------------------------|
| 2008 | \$28,542 |
| 2009 | \$26,659 |
| 2010 | \$23,458 |
| 2011 | \$20,572 |
| 2012 | \$18,014 |

3. Deferred charges

| | <u>2007</u> (000's) | <u>2006</u> (000's) |
|------------------------------------------|------------------------|------------------------|
| Issue expenses on debenture debt | \$ 380 | \$ 497 |
| Premiums and discounts on debenture debt | 151 | 195 |
| | <u>\$ 531</u> | <u>\$ 692</u> |

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
NOTES TO FINANCIAL STATEMENTS
31 March 2007

4. Debenture debt

The Corporation's debenture debt is unconditionally and fully guaranteed as to principal, interest and sinking fund payments, if any, by the Province. Details of long-term debt outstanding at 31 March 2007 are as follows:

| Series | Remaining Term | Interest Rate % | Sinking Fund Balance (000's) | 2007 (000's) | 2006 (000's) | |
|-----------------------|----------------|-----------------|------------------------------|-------------------|-------------------|-----|
| MFC-17 | | | \$ - | \$ - | \$ 1,500 | |
| MFC-21 | 1 Dec 2008 | 10.875 | 11,030 | 15,000 | 15,000 | |
| MFC-22 | 15 Jun 2007-09 | 10.500 | - | 3,750 | 5,000 | (a) |
| MFC-26 | | - | - | - | 2,667 | |
| MFC-27 | | - | - | - | 1,666 | |
| MFC-28 | 30 Apr 2007 | 10.250 | - | 2,666 | 5,332 | (b) |
| MFC-29 | 15 Dec 2007 | 9.625 | - | 1,000 | 2,000 | (c) |
| MFC-30 | 20 May 2007-08 | 9.125 | - | 4,000 | 6,000 | (d) |
| MFC-31 | 1 Dec 2007-08 | 8.250 - 8.375 | - | 4,666 | 6,999 | (e) |
| MFC-32 | 17 May 2007-08 | 9.250 - 9.375 | - | 8,000 | 8,000 | (f) |
| MFC-34 | 2 Sep 2007 | 9.960 | - | 10,000 | 10,000 | |
| MFC-36 | 15 May 2007-10 | 9.400 - 9.600 | - | 5,000 | 6,250 | (g) |
| MFC-37 | 10 Jan 2008-11 | 8.125 - 8.375 | - | 8,000 | 10,000 | (h) |
| MFC-38 | 1 Jun 2007-13 | 5.750 - 6.000 | - | 8,600 | 9,800 | (i) |
| MFC-39 | 16 Dec 2007-13 | 5.750 - 6.125 | - | 10,000 | 12,500 | (j) |
| MFC-40 | 14 Dec 2007-14 | 6.650 - 6.850 | - | 9,200 | 10,900 | (k) |
| MFC-41 | 17 Oct 2007-10 | 6.375 - 6.500 | - | 5,600 | 7,000 | (l) |
| MFC-42 | 5 Apr 2007-11 | 5.450 - 5.900 | - | 8,700 | 10,100 | (m) |
| MFC-43 | 20 Sep 2007-16 | 5.625 - 6.500 | - | 24,000 | 26,000 | (n) |
| MFC-44 | 15 Mar 2008-17 | 5.250 - 6.125 | - | 10,000 | 11,000 | (o) |
| MFC-45 | 26 Mar 2008-13 | 4.500 - 5.375 | - | 20,000 | 22,000 | (p) |
| MFC-46 | 15 Feb 2012 | 5.200 | - | 10,000 | 10,000 | |
| MFC-47 | 17 Mar 2008-19 | 3.500 - 5.200 | - | 15,202 | 16,468 | (q) |
| MFC-48 | 29 Mar 2008-20 | 3.600 - 5.200 | - | 25,400 | 27,700 | (r) |
| Total | | | <u>\$ 11,030</u> | <u>208,784</u> | <u>243,882</u> | |
| Less: sinking funds | | | | <u>(11,030)</u> | <u>(10,102)</u> | (s) |
| Net debenture debt | | | | <u>197,754</u> | <u>233,780</u> | |
| Less: current portion | | | | <u>(46,165)</u> | <u>(35,098)</u> | |
| Long-term portion | | | | <u>\$ 151,589</u> | <u>\$ 198,682</u> | |

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
NOTES TO FINANCIAL STATEMENTS
31 March 2007

4. Debenture debt (cont.)

- (a) On 15 June of each year, the Corporation is to redeem \$1,250,000 in the years 2007 to 2009 inclusive.
- (b) On 30 April 2007, the Corporation is to redeem the \$2,666,000.
- (c) On 15 December 2007, the Corporation is to redeem the \$1,000,000.
- (d) On 20 May of each year, the Corporation is to redeem \$2,000,000 in the years 2007 to 2008 inclusive.
- (e) On 1 December of each year, the Corporation is to redeem \$2,333,000 in the years 2007 to 2008 inclusive.
- (f) On 17 May of each year, the Corporation is to redeem \$6,000,000 in the year 2007 and \$2,000,000 in the year 2008.
- (g) On 15 May of each year, the Corporation is to redeem \$1,250,000 in the years 2007 to 2010 inclusive.
- (h) On 10 January of each year, the Corporation is to redeem \$2,000,000 in the years 2008 to 2011 inclusive.
- (i) On 1 June of each year, the Corporation is to redeem \$1,200,000 in the years 2007 to 2009 inclusive and \$1,250,000 in the year 2010 to 2013 inclusive.
- (j) On 16 December of each year, the Corporation is to redeem \$2,500,000 in the years 2007 to 2008 inclusive and \$1,000,000 in the years 2009 to 2013 inclusive.
- (k) On 14 December of each year, the Corporation is to redeem, \$1,800,000 in the year 2007, \$1,200,000 in the years 2008 to 2009 inclusive and \$1,000,000 in the years 2010 to 2014 inclusive.
- (l) On 17 October of each year, the Corporation is to redeem \$1,400,000 in the year 2007, \$1,600,000 in the years 2008 to 2009 inclusive and \$1,000,000 in the year 2010.
- (m) On 5 April of each year, the Corporation is to redeem \$1,400,000 in the year 2007, \$1,500,000 in the year 2008, \$1,600,000 in the year 2009, \$1,700,000 in the year 2010 and \$2,500,000 in the year 2011.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
NOTES TO FINANCIAL STATEMENTS
31 March 2007

4. Debenture debt (cont.)

- (n) On 20 September of each year, the Corporation is to redeem \$2,800,000 in the years 2007 to 2011 inclusive and \$2,000,000 in the years 2012 to 2016 inclusive.
- (o) On 15 March of each year, the Corporation is to redeem \$1,000,000 in the years 2008 to 2017 inclusive.
- (p) On 26 March of each year, the Corporation is to redeem \$2,000,000 in the years 2008 to 2012 inclusive and \$10,000,000 in the year 2013.
- (q) On 17 March of each year, the Corporation is to redeem \$1,266,000 in the year 2008, \$1,276,000 in the year 2009 and \$1,266,000 in the years 2010 to 2019 inclusive.
- (r) On 29 March of each year, the Corporation is to redeem \$2,300,000 in the years 2008 to 2015 inclusive and \$1,400,000 in the years 2016 to 2020 inclusive.
- (s) For debentures which have sinking fund requirements, the Corporation makes the required contributions to the Board of Trustees of the Newfoundland and Labrador Municipal Financing Corporation Sinking Fund. This is an unincorporated body appointed by the Lieutenant-Governor in Council. All board members are full-time employees of the Province.

Estimated sinking fund requirements and debenture maturities over the next five (5) years are as follows:

| Year Ending 31 March | Sinking Fund Requirements (000's) | Debenture Maturities (000's) | Total Amount (000's) |
|-------------------------|-----------------------------------------|------------------------------------|----------------------------|
| 2008 | \$300 | \$46,165 | \$46,465 |
| 2009 | - | \$28,209 | \$28,209 |
| 2010 | - | \$20,466 | \$20,466 |
| 2011 | - | \$18,566 | \$18,566 |
| 2012 | - | \$25,116 | \$25,116 |

Debenture maturities reflect only securities maturing without sinking funds.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
NOTES TO FINANCIAL STATEMENTS
31 March 2007

5. Deferred revenue

| | 2007 | 2006 |
|--------------------------|---------------|---------------|
| | (000's) | (000's) |
| Deferred revenue | \$ 416 | \$ 686 |
| Less: current portion | (181) | (270) |
| <u>Long-term portion</u> | <u>\$ 235</u> | <u>\$ 416</u> |

6. Reserve fund

The Province funds a reserve fund established to mitigate arrears with respect to municipal loans. The reserve fund is allocated as the Department of Municipal Affairs concludes negotiations with various municipal corporations with respect to restructuring debt due to the Corporation.

| | 2007 | 2006 |
|-----------------------------------------------------------------------------|-----------------|-----------------|
| | (000's) | (000's) |
| Balance, beginning of year | \$ 1,770 | \$ 2,792 |
| Add: funds advanced to Corporation during year | - | - |
| Less: amounts allocated to municipal corporations for debt restructuring | - | (1,022) |
| <u>Balance, end of year</u> | <u>\$ 1,770</u> | <u>\$ 1,770</u> |

7. Financial instruments

The Corporation's short-term financial instruments recognized on the balance sheet consist of cash and term deposits, short-term investments, accounts receivable, accrued interest receivable, accounts payable and accrued liabilities, and accrued interest payable. The carrying values of these instruments approximate current fair value due to their nature and the short-term maturity associated with them. Since provisions exist for the recovery from the Province of any defaults by municipal corporations there is no credit risk associated with the Corporation's accounts receivable.

The Corporation's long-term financial instruments recognized on the balance sheet consist of long-term investments, long-term loans receivable and long-term debenture debt. The Corporation's policy is to hold its long-term investments to maturity, therefore their reported value is current fair value to the Corporation. Since provisions exist for the recovery from the Province of any defaults by municipal corporations there is no credit risk associated with the Corporation's long-term loans receivable and therefore, the amount presented in the balance sheet is the same as current fair value of the asset.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
NOTES TO FINANCIAL STATEMENTS
31 March 2007

7. Financial instruments (cont.)

The majority of the Corporation's long-term debt is issued as serial debentures which are redeemed over a number of years at varying interest rates. In addition, the Corporation's long-term debenture debt is used to finance loans to the Province's various municipalities. The rates charged by the Corporation to these municipalities is calculated using the rates the Corporation is required to pay on its related debenture debt plus an additional percentage. Because provisions exist for the recovery from the Province of any defaults by municipal corporations and because the long-term debenture debt of the Corporation is specifically tied to these receivables, the long-term debenture debt as presented in the balance sheet is presented at current fair value and the Corporation is not subject to any rate risk relating to this debt.

8. Economic dependence

As a result of cost-sharing arrangements, the loans receivable from municipal corporations disclosed in Note 2 are serviced by both the municipal corporations and the Province. Due to the nature of these arrangements, the Province is in effect repaying a significant portion of the loans owing to the Corporation. Provisions exist for the recovery from the Province of any defaults by municipal corporations.

The Corporation's debentures are fully guaranteed by the Province as to principal, interest and sinking fund payments, if any. As at 31 March 2007, this guarantee covered net debenture debt and accrued interest totalling \$200,559,000 (2006 - \$237,383,000).

As a result, the Corporation's continued existence is dependent upon the decisions of the Province.

9. Related party transactions

The Corporation is administered by employees of the Department of Finance. The salary costs of these employees are paid by the Department of Finance, reimbursed by the Corporation, and are reflected in these financial statements.

10. Income taxes

The Corporation is a Crown corporation of the Province of Newfoundland and Labrador and as such is not subject to Provincial or Federal income taxes.

11. Going concern

The Province of Newfoundland and Labrador has decided that it will no longer refinance its portion of completed municipal capital projects through the Corporation. As a result, the Corporation will be winding up its operations over the coming years as it collects its loans receivable and repays its debenture debt.