

NORTHERN ONTARIO HERITAGE FUND CORPORATION
ANNUAL REPORT
2018-2019



An Agency of
the Government
of Ontario

Lieutenant Colonel The Honourable Elizabeth Dowdeswell
Lieutenant Governor of the Province of Ontario

May it please Your Honour:

For the information of Your Honour and the Legislative Assembly, I have the privilege of presenting the annual report of the Northern Ontario Heritage Fund Corporation for the fiscal year ending March 31, 2019.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Greg Rickford". The signature is stylized and cursive, with a large initial "G" and "R".

Hon. Greg Rickford
Chair
Northern Ontario Heritage Fund Corporation
Minister of Energy, Northern Development and Mines

Introduction from Greg Rickford, Board Chair

Our government continues to put the north at the forefront of Ontario's Open for Business, Open for Jobs Strategy – making sure communities stay competitive and attract investment. The Northern Ontario Heritage Fund is a key driver for creating economic opportunities across Northern Ontario.

Since June 2018, the Northern Ontario Heritage Fund Corporation has funded \$115,024,044 for 590 projects, creating or retaining 1,273 jobs – investments that send a clear message that Northern Ontario is open for business.

Our government's investments have a positive impact on communities across Northern Ontario. We are delivering on Ontario's commitment to create more opportunities for Indigenous people and addressing the skilled labour shortage across the north through a revamped and more accessible Northern Ontario Internship Program.

We are making networking capacity better through investments in vital information and communications technology infrastructure that provide high-speed connectivity to communities and institutions across the north, linking them to each other and to a global grid of research, education and innovation networks.

We are improving the delivery of health care through investments that foster research and innovation in the health sciences sector.

And we are ensuring a competitive mining supply and services sector through investments that promote business expansion and the development of new technology.

I'm proud to say Ontario is helping deliver the prosperity that northerners expect and deserve.

A handwritten signature in black ink, appearing to read 'Greg Rickford', with a stylized flourish at the end.

Greg Rickford
Chair,
Northern Ontario Heritage Fund Corporation
Minister of Energy, Northern Development and Mines

Board of Directors as of March 31, 2019

| POSITION | NAME | APPOINTMENT TERM | CITY |
|-----------------|-------------------|-----------------------------|------------------|
| Chair | Rickford, Greg | 29-Jun-2018 - N/A | Keewatin |
| Member | Knauff, Genevieve | 02-Feb-2017 - 01-Feb-2020 | Thunder Bay |
| Member | Beatty, James | 07-Aug-2013 - 05-Aug-2019 | Parry Sound |
| Member | Slade, Fred | 31 - Jan-2019 – 31-Jan-2022 | Sudbury |
| Member | Simperl, John | 03-Dec-2014 - 02-Dec-2019 | Thunder Bay |
| Vice Chair | Sinclair, David | 18-Dec-2018 - 18-Dec-2021 | Kenora |
| Member | Brown, Marielle | 24-Mar-2010 - 22-Mar-2020 | Elliot Lake |
| Member | Norris, Robert | 24-Mar-2010 - 22-Mar-2020 | New Liskeard |
| Member | Mudge, Theresa | 04-Oct-2017 - 03-Oct-2020 | Sault Ste. Marie |
| Member | Caicco, James | 17-May-2011 - 13-June-2019 | Sault Ste. Marie |
| Member | Fox, Michael | 17-May-2011 – 30-May-2019 | Thunder Bay |
| Member | Fontaine, Robert | 13-Jun-2012 - 25-Jul-2019 | Sudbury |
| Member | Perry, Jeffrey | 10-Feb-2016 - 20-Feb-2020 | Sudbury |

The Northern Ontario Heritage Fund Corporation (NOHFC)

The NOHFC was established in 1988, with a mandate to promote and stimulate economic development initiatives in Northern Ontario by providing financial assistance to projects that stabilize, diversify and foster the economic growth of the region.

The Northern Ontario Heritage Fund Corporation (NOHFC) is a board governed agency established under the enabling legislation of the Northern Ontario Heritage Fund Act. The NOHFC has an appointed Board of Directors, chaired by the Minister of Energy, Northern Development and Mines. NOHFC's objectives are set out in the Northern Ontario Heritage Fund Act as follows:

- (a) to advise and make recommendations to the Lieutenant Governor in Council on any matter relating to the growth and diversification of the economy of Northern Ontario;
- (b) to promote and stimulate economic initiatives in Northern Ontario; and
- (c) to commission studies and enter into contracts in connection with the objects set out in clauses (a) and (b) above.

The Corporation provides economic-development funding toward approved projects in the territorial districts of Northern Ontario, namely Algoma, Cochrane, Kenora, Manitoulin, Nipissing, Parry Sound, Rainy River, Sudbury, Thunder Bay and Timiskaming.

Vision

NOHFC will be a catalyst for key strategic investments to stimulate economic development and diversification in Northern Ontario.

Mission

To partner with communities, not-for-profits, businesses, and entrepreneurs across Northern Ontario to create jobs and strengthen the economy.

Guiding Principles

Alignment with Key Initiatives – The Growth Plan for Northern Ontario (GPNO) provides a coordinated, long-term, and comprehensive approach to support Northern Ontario as a globally-competitive region. NOHFC priorities will support the key elements of the GPNO.

Recognition of Northern Ontario's Unique Circumstances – The programs and initiatives of NOHFC will continue to be an important means of recognizing the unique requirements of Northern Ontario in support of a strong Ontario. The NOHFC will continue to build and enhance its current programs and services with this in mind.

Adaptability – The strategic-planning process is ongoing and provides the NOHFC with a management tool for adapting to change in the future.

Reflective, Flexible, and Forward-Thinking – It is the intent that the NOHFC Board of Directors will review the strategic plan, at minimum, on an annual basis.

Inclusiveness – The NOHFC will continue to develop and deliver its programs and initiatives in a manner that recognizes the needs of the North’s diverse communities including, but not limited to, indigenous communities and individuals and the North’s other demographic groups.

Strategic Priorities

Innovation, Research and Development, and Commercialization – Support applied research and development projects and initiatives that lead to innovative products and services with commercialization potential.

- Support and encourage partnerships among educational institutions, research organizations, and industry to develop and grow innovative products and industries in Northern Ontario.
- Support the commercialization of ideas and innovation in partnership with northern stakeholders.

Creativity, Productivity and Entrepreneurial Development – Support an environment that promotes creativity, productivity and entrepreneurial development.

- Support collaboration with educational institutions and industry to promote productivity and entrepreneurial development.
- Assist Northern stakeholders to attract and retain a highly skilled and creative workforce.
- Provide assistance to entrepreneurs at various stages of growth.

Partnerships and Collaboration – Maximize opportunities to leverage NOHFC funding through partnerships and collaboration to ensure the success of projects and sustainable economic outcomes.

- Engage leaders in economic development discussions to increase awareness, knowledge and access to NOHFC programs.
- Support projects that demonstrate collaboration and partnership amongst public and private sector organizations in Northern Ontario.
- Work collaboratively with other funding partners to assist in the development and funding of projects that result in job creation and support a growing and sustainable Northern Ontario economy.

Organization Development and Renewal – Engage in continuous improvement and human-resource development to improve the efficiency, effectiveness, access and delivery of NOHFC programs, as well as improve performance measurement.

- Continue development of information-technology capabilities and enhance existing systems to improve access to NOHFC programs.
- Implement regular, ongoing dialogue between the NOHFC Board and staff to plan and engage in strategic thinking in the new and emerging opportunities and key government initiatives.

- Develop business approaches and best practices that allow staff and program delivery partners to proactively communicate and work with stakeholders to promote and facilitate access to NOHFC programs.
- Provide the tools and training to enable staff and board to fulfill their roles and responsibilities effectively in an increasingly-demanding environment.

Awareness, Education and Recognition – Develop effective marketing, communication, and outreach tools that increase awareness, understanding and recognition of NOHFC, its programs and processes.

- Develop effective marketing and communications tools that increase awareness and recognition of NOHFC and its programs.
- Develop effective marketing and communications tools to educate targeted clients to improve access to NOHFC programs.

Current NOHFC Programs and Themes:

- **Strategic economic development initiatives that support the growth and sustainability of communities, businesses and industry** – Northern Business Opportunity Program
- **Innovation and productivity to support research and development, commercialization, innovation and productivity initiatives** – Innovation Program
- **Community strategic economic infrastructure** – Strategic Infrastructure Program
- **Economic development capacity enhancement** – Northern Community Capacity-Building Program and Northern Event Partnership Program
- **Attraction and retention of talent** – Northern Ontario Internship Program

NOHFC Performance Measures – Targets and Results

Total Jobs to Be Created/Retained April 1, 2018 – March 31, 2019

| Job Category | Total Jobs Approved |
|---|---------------------|
| Jobs to be Created | 1,111 |
| Jobs to be Retained | 170 |
| Internship Jobs | 428 |
| Jobs to be created as a result of Infrastructure Project Activities | 598 |
| Total | 2,307 |

Five Year Comparison of Jobs to be Created/Retained

| Fiscal Year | To be Created/Retained | Target | To be Created Only |
|-------------|------------------------|--------|--------------------|
| 2014-2015 | 2,930 | 3,500 | 1,742 |
| 2015-2016 | 3,423 | 3,500 | 1,208 |
| 2016-2017 | 4,184 | 3,500 | 1,499 |
| 2017-2018 | 3,914* | 3,500 | 1,581 |
| 2018-2019 | 2,307 | 3,500 | 1,111 |

*The results for 2017-18 were adjusted to reflect a NOHFC investment by NOHFC which was rescinded when the project was instead funded by Ministry of Energy, Northern Development and Mines.

Total Dollars Leveraged April 1, 2018 – March 31, 2019

| Fiscal Year | Actual | Target |
|-------------|--------|--------|
| 2014-2015 | 2.90 | 3 |
| 2015-2016 | 3.40 | 3 |
| 2016-2017 | 4.42 | 3 |
| 2017-2018 | 4.13 | 3 |
| 2018-2019 | 4.15 | 3 |

Six Year Comparison of Projects Approved

| Fiscal Year | Total Projects Approved |
|-------------|-------------------------|
| 2013-2014 | 976 |
| 2014-2015 | 732 |
| 2015-2016 | 801 |
| 2016-2017 | 836 |
| 2017-2018 | 854 |
| 2018-2019 | 610 |

NOHFC did not meet its jobs to be created target in 2018-19. The agency's operations were impacted by the writ period and subsequent transition of governments which is illustrated by the reduction in the number of projects approved by the NOHFC, see Six Year Comparison of Project Approved table above. With fewer project approvals the NOHFC was unable to support a sufficient number of projects to meet its performance target that would have resulted in additional job creation in the north.

NOHFC continued to exceed its performance target for investment leveraged from other funding sources. Investment leveraged is not dependant upon activity levels and, as such, NOHFC's investment leverage performance was not negatively impacted in 2018-19.

In 2019-20, NOHFC will be reviewing its funding programs to align with the current government's economic development priorities for Northern Ontario. Through these activities NOHFC will seek opportunities to improve program performance.

NOHFC Financial Performance – Target and Results

Schedule of Revenue, Expenses and Net Investment by The Province of Ontario for the Three Years Ended March 31, 2019

| | Year Ended March 31, 2019 (000's) Budget | Year Ended March 31, 2019 (000's) Audited | Year Ended March 31, 2018 (000's) Audited | Year Ended March 31, 2017 (000's) Audited |
|---|---|--|--|--|
| Revenue | | | | |
| Province of Ontario grant | \$100,000 | \$100,000 | \$100,000 | \$100,000 |
| Interest on cash and cash equivalents (Note 1) | 3,564 | 5,775 | 3,329 | 1,933 |
| Interest on loans receivable (Note 2) | 2,193 | 2,245 | 2,502 | 2,158 |
| Other (Note 3) | - | 1,775 | 849 | 1,167 |
| Total Revenue | 105,757 | 109,795 | 106,680 | 105,258 |
| Expenses | | | | |
| Conditional Contributions (Note 4) | 95,121 | 105,866 | 93,951 | 74,834 |
| Credit losses (Note 5) | 3,898 | 451 | 1,762 | 2,981 |
| Administration: | | | | |
| Salaries, wages and benefits (Note 6) | 2,413 | 2,126 | 2,162 | 1,952 |
| Transportation and communication | 352 | 108 | 315 | 386 |
| Services (Note 7) | 2,082 | 1,419 | 1,691 | 2,214 |
| Management fees (Note 8) | 3,000 | 2,088 | 2,414 | 3,047 |
| Marketing | 1,000 | 327 | 490 | 122 |
| Supplies and equipment | 50 | 23 | 37 | 29 |
| Amortization of tangible capital assets | 2 | 2 | 3 | 4 |
| Total Expenses | 107,918 | 112,410 | 102,825 | 85,569 |
| Excess (deficiency) of revenue over expenses | (2,161) | (2,615) | 3,855 | 19,689 |
| Net investment by the Province of Ontario, beginning of year | | 336,943 | 333,088 | 313,399 |
| Net investment by the Province of Ontario, end of year | | \$334,328 | \$336,943 | \$333,088 |

Analysis of Variances

Note 1 – Interest on cash and cash equivalents was higher than expected due to higher interest rates earned than budgeted.

Note 2 – Interest earned on loan receivables was slightly higher than expected, as the number of loan repayments were higher than originally budgeted.

Note 3 – Other revenue represents prior-year provision recoveries and prior-year adjustments to conditional contributions.

Note 4 – Conditional contributions were higher than the budget and the previous fiscal year. This is a direct result of funds that had been committed in previous fiscal years but did not flow until the current fiscal year.

Note 5 – Credit losses decreased year-over-year by more than \$1M and were below the budget amount by \$3M due to the decreased risk of the loan portfolio and a reduction in the amount of loans outstanding.

Note 6 – Salaries and benefits are less than the current year budget due to in-year vacancies.

Note 7 – Services were under budget as a result of the change in government and the temporary pause on spending.

Note 8 – Management fees were lower than the budget due to fewer board meetings during the fiscal year.

3-Year Comparison of Revenue and Expenses

| Fiscal Year | Revenue | Expenses | Revenue Over Expenses, (Expenses Over Revenue) |
|------------------|-----------|-----------|---|
| 2016-2017 | \$105,258 | \$85,569 | \$19,689 |
| 2017-2018 | \$106,680 | \$102,825 | \$3,855 |
| 2018-2019 | \$109,795 | \$112,410 | (\$2,615) |

Summary of Administrative Expenses for the Year Ended March 31, 2019

| Expense | Total Spending | Percentage of Spending |
|--|----------------|------------------------|
| Contracted salaries and benefits | 2,126 | 34.8% |
| Transportation and communication | 108 | 1.8% |
| Services | 1,419 | 23.3% |
| Management fees | 2,088 | 34.3% |
| Marketing | 327 | 5.4% |
| Supplies and equipment | 23 | 0.4% |
| Amortization of tangible capital assets | 2 | 0.0% |
| Total | 6,093 | |

3-Year Comparison of Administrative Costs

| Expense | 2016-2017 | 2017-2018 | 2018-2019 |
|--|--------------|--------------|--------------|
| Contracted salaries and benefits | 1,952 | 2,162 | 2,126 |
| Transportation and communication | 386 | 315 | 108 |
| Services | 2,214 | 1,691 | 1,419 |
| Management fees | 3,047 | 2,414 | 2,088 |
| Marketing | 122 | 490 | 327 |
| Supplies and equipment | 29 | 37 | 23 |
| Amortization of tangible capital assets | 4 | 3 | 2 |
| Total | 7,754 | 7,112 | 6,093 |

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2019

Financial Statements of

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Year ended March 31, 2019

Northern Ontario Heritage Fund Corporation Year ended March 31, 2019

Responsibility for Financial Reporting

The accompanying financial statements of the Northern Ontario Heritage Fund Corporation (NOHFC) have been prepared in accordance with Canadian public sector accounting standards, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 6, 2019.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The Board, through the Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, comprised of members who are not employees/officers of NOHFC generally meets periodically with management and the Office of the Auditor General to satisfy itself that each group has properly discharged its respective responsibility.

The financial statements have been audited by the Office of the Auditor General of Ontario. The Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian public sector accounting standards. The Auditor's Report outlines the scope of the Auditor's examination and opinion.



Melanie Muncaster
Executive Director
NOHFC



Jocelyn Ouellet, CPA, CMA
Senior Corporate Controller
NOHFC



Office of the Auditor General of Ontario
Bureau de la vérificatrice générale de l'Ontario

Independent Auditor's Report

To the Northern Ontario Heritage Fund Corporation

Opinion

I have audited the financial statements of the Northern Ontario Heritage Fund Corporation (NOHFC), which comprise the statement of financial position as at March 31, 2019, and the statements of operations, change in net financial assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the NOHFC as at March 31, 2019 and the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the NOHFC in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, 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 NOHFC'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 NOHFC either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the NOHFC's financial reporting process.

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Auditor's Responsibilities for the Audit of the Financial Statements

My 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 auditor's report that includes my 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 these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 NOHFC'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 NOHFC's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the NOHFC 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.

I 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 I identify during my audit.



Susan Klein, CPA, CA, LPA
Assistant Auditor General

Toronto, Ontario
June 6, 2019

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Financial Position

March 31, 2019, with comparative information for 2018

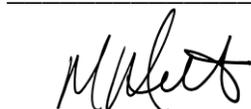
| (\$000s) | 2019 | 2018 |
|---|-------------------|-------------------|
| Financial Assets | | |
| Current assets: | | |
| Cash and cash equivalents (note 3) | \$ 306,970 | \$ 299,217 |
| Accrued interest | 1,901 | 1,323 |
| Current portion of loan receivable (note 4) | 8,123 | 8,118 |
| | <u>316,994</u> | <u>308,658</u> |
| Loans receivable (note 4) | 28,293 | 32,624 |
| | <u>345,287</u> | <u>341,282</u> |
| Financial Liabilities | | |
| Accounts payable and accrued liabilities (note 5) | 10,959 | 4,341 |
| Net financial assets | <u>334,328</u> | <u>336,941</u> |
| Non-Financial Assets | | |
| Tangible capital assets (note 6) | - | 2 |
| Commitments (note 9) | | |
| Net investment by the Province of Ontario | <u>\$ 334,328</u> | <u>\$ 336,943</u> |

See accompanying notes to financial statements.

On behalf of the Board:



Co-Chair



Executive Director

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Operations

Year ended March 31, 2019, with comparative information for 2018

| (\$000s) | Budget 2019 | 2019 | 2018 |
|---|----------------|------------|------------|
| Revenue: | | | |
| Province of Ontario grant | \$ 100,000 | \$ 100,000 | \$ 100,000 |
| Interest on cash and cash equivalents | 3,564 | 5,775 | 3,329 |
| Interest on loans receivable | 2,193 | 2,245 | 2,502 |
| Recoveries | – | 1,775 | 849 |
| | 105,757 | 109,795 | 106,680 |
| Expenses: | | | |
| Conditional contributions | 95,121 | 105,866 | 93,951 |
| Credit losses (note 7) | 3,898 | 451 | 1,762 |
| Administration (note 8) | 8,899 | 6,093 | 7,112 |
| | 107,918 | 112,410 | 102,825 |
| (Deficiency)/Excess of revenue over expenses | \$ (2,161) | (2,615) | 3,855 |
| Net investment by the Province of Ontario, beginning of year | | 336,943 | 333,088 |
| Net investment by the Province of Ontario, end of year | | \$ 334,328 | \$ 336,943 |

See accompanying notes to financial statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Changes in Net Financial Assets

Year ended March 31, 2019, with comparative information for 2018

| (\$000s) | 2019 | 2018 |
|--|------------|------------|
| (Deficiency)/Excess of revenue over expenses | \$ (2,615) | \$ 3,855 |
| Amortization of capital assets | 2 | 3 |
| (Decrease)/increase in net financial assets | (2,613) | 3,858 |
| Net financial assets beginning of year | 336,941 | 333,083 |
| Net financial assets, end of year | \$ 334,328 | \$ 336,941 |

See accompanying notes to financial statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Cash Flows

Year ended March 31, 2019 with comparative information for 2018

| (\$000s) | 2019 | 2018 |
|--|-------------|-------------|
| Lending, investing and financial assistance activities: | | |
| Loan disbursements | \$ (10,893) | \$ (12,806) |
| Loan repayments and recoveries | 16,588 | 12,674 |
| Conditional contributions | (98,878) | (99,902) |
| Interest received on loans receivable | 2,204 | 2,445 |
| Other revenue | 2 | 122 |
| | (90,977) | (97,467) |
| Financing activities: | | |
| Cash contributions from the Province for lending and financial assistance activities | 100,000 | 100,000 |
| Operating activities: | | |
| Interest received on cash and cash equivalents | 5,194 | 2,500 |
| Administration costs | (6,464) | (7,282) |
| | (1,270) | (4,782) |
| Net increase/(decrease) in cash and cash equivalents | 7,753 | (2,249) |
| Cash and cash equivalents, beginning of year | 299,217 | 301,466 |
| Cash and cash equivalents, end of year | \$ 306,970 | \$ 299,217 |

See accompanying notes to financial statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2019

1. Nature of the business:

The Northern Ontario Heritage Fund Corporation (the "Corporation") was established, without share capital, on June 1, 1988 under the Northern Ontario Heritage Fund Act. The purpose of the Corporation is to fund infrastructure improvements and economic development opportunities in Northern Ontario by providing financial assistance by way of conditional contributions, forgivable performance loans, and term loans. As an Ontario Crown agency, the Corporation is exempt from federal and provincial income taxes under the Income Tax Act (Canada).

The Corporation partners with communities, businesses and entrepreneurs across Northern Ontario to create jobs and strengthen the Northern economy. The Corporation delivers five targeted programs as follows: Strategic Economic Infrastructure Program, Northern Community Capacity Building Program, Northern Innovation Program, Northern Business Opportunity Program, and Northern Ontario Internship Program.

2. Significant accounting policies:

The significant accounting policies used to prepare these financial statements are summarized below.

(a) Basis of accounting:

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards for provincial reporting entities established by the Canadian Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada.

(b) Transactions with the Province of Ontario:

The Province of Ontario contributes funds to finance the Corporation's lending and financial assistance activities. The net investment by the Province of Ontario is increased (reduced) by the excess (deficiency) of revenue over expenses.

(c) Cash and cash equivalents:

Cash and cash equivalents consist primarily of funds on deposit in chartered banks and short-term investments on deposit with the Ontario Financing Authority, a related party.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2019

2. Significant accounting policies (continued):

(d) Financial instruments:

Financial instruments obtained in arm's-length transactions are initially measured at their fair value. Interest free loans are discounted to fair value when initially recorded. Financial instruments are subsequently measured in one of the following categories (i) fair value or (ii) cost or amortized cost. The Corporation uses fair value for the subsequent measurement of cash and cash equivalents. The Corporation uses amortized cost for the subsequent measurement of loans receivable and accounts payable and accrued liabilities.

(e) Tangible capital assets:

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to the acquisition or betterment of the asset.

The cost, less residual value of the tangible capital asset, is amortized on a straight line basis over its estimated useful life as follows:

| | Years |
|------------|-------|
| Automotive | 7 |

(f) Provision for credit losses:

Credit losses arise on loans receivable issued by the Corporation. In addition to specific write-offs and write-downs, a provision for credit losses is maintained in an amount considered adequate to absorb anticipated credit-related losses. The provision for losses on loans consists of provisions on specific loans and a general provision on the remaining loans and is deducted from loans receivable.

The amounts written off and written down in the year and changes in provisions, are charged to credit losses in the Statement of Operations. Recoveries reflect Funds received during the year from loans provided for in a prior year and are recorded as recoveries on the Statement of Operations.

(g) Revenue recognition:

Government grants are recognized when receivable, amounts are determinable and collectability is assured. Interest income is recognized on the accrual basis. Interest revenue on loans receivable is recognized in the financial statements in an amount estimated to be recoverable. Interest revenue ceases to be recognized on fully impaired loans.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2019

2. Significant accounting policies (continued):

(h) Conditional contributions and forgivable loans:

The Corporation expenses conditional contributions and forgivable performance loans when disbursed. Approved commitments are not recognized in the financial statements until the conditions of the funding have been met by the recipients.

(i) Use of estimates:

Preparation of the financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimated. Significant estimates include the provision for credit losses and the loan discount.

3. Cash and cash equivalents:

The Northern Ontario Heritage Fund Act restricts investments to securities issued or guaranteed by the provinces, Canada, United States, United Kingdom, the International Bank for Reconstruction and Development and any Canadian Schedule I or II bank, and other investments as authorized by the Lieutenant Governor in Council. The Corporation, through an Investment Management Agreement with the Ontario Financing Authority, invests excess funds in securities as allowed by the Act.

Cash and cash equivalents consist of:

| (\$000s) | 2019 | 2018 |
|------------------------|-------------------|-------------------|
| Cash | \$ 101,460 | \$ 96,780 |
| Short-term investments | 205,510 | 202,437 |
| | <u>\$ 306,970</u> | <u>\$ 299,217</u> |

Short-term investments consist of Treasury Bills (maturing within 365 days) which yielded 2.10% on average (2018 – 1.52%). All Treasury Bills are redeemable on demand.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2019

4. Loans receivable:

| (\$000s) | 2019 | 2018 |
|------------------------------|------------------|------------------|
| Current | \$ 8,123 | \$ 8,118 |
| Long-term | 48,146 | 55,091 |
| Loans in arrears and default | 7,252 | 7,561 |
| Provision for credit losses | (26,915) | (29,792) |
| Loan discount | (190) | (236) |
| | <u>\$ 36,416</u> | <u>\$ 40,742</u> |

Generally, loans bear fixed interest rates ranging from 0% to 8.25% and are fully repayable within 20 years from the date disbursed.

The changes in the provision for credit losses are as follows:

| (\$000s) | 2019 | 2018 |
|-------------------------------|------------------|------------------|
| Balance, beginning of year | \$ 29,792 | \$ 34,217 |
| Loans written off in the year | (1,555) | (5,489) |
| Change in loan provision | (1,322) | 1,064 |
| Balance, end of year | <u>\$ 26,915</u> | <u>\$ 29,792</u> |

The change in the loan discount balances are as follows:

| (\$000s) | 2019 | 2018 |
|--|---------------|---------------|
| Balance, beginning of year | \$ 236 | \$ 286 |
| Amount amortized to interest on loans receivable | (46) | (50) |
| Balance, end of year | <u>\$ 190</u> | <u>\$ 236</u> |

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2019

5. Accounts payable and accrued liabilities:

Accounts payable and accrued liabilities relate largely to normal business transactions with recipients, in accordance with conditional grant agreements and intercompany balance between the Ministry of Energy, Northern Development and Mines (ENDM) and the Corporation.

| (\$000s) | 2019 | 2018 |
|---------------------|-----------|----------|
| Due to ENDM | \$ 646 | \$ 1,016 |
| Accrued liabilities | 10,313 | 3,325 |
| Total | \$ 10,959 | \$ 4,341 |

6. Tangible capital assets:

| (\$000s) | 2019 | 2018 |
|-----------------------------|-------|-------|
| Cost | | |
| Opening | \$ 26 | \$ 26 |
| Additions | – | – |
| Closing | 26 | 26 |
| Accumulated amortization: | | |
| Opening | 24 | 21 |
| Amortization | 2 | 3 |
| Closing | 26 | 24 |
| Net book value, end of year | \$ – | \$ 2 |

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2019

7. Credit losses:

Credit losses shown in the Statement of Operations are as follows:

| (\$000s) | 2019 | 2018 |
|--|----------|----------|
| Loans written off in the year | \$ 1,555 | \$ 5,489 |
| Less: amounts provided for in previous years | (1,555) | (5,494) |
| Closing | – | (5) |
| Changes in provision on active loans | 451 | 1,767 |
| Change in credit loss provision | 451 | 1,762 |
| Credit losses/(reversal) | \$ 451 | \$ 1,762 |

8. Administration expenses:

Details of administration expenses in the year are as follows:

| (\$000s) | Budget | | |
|---|----------|----------|----------|
| | 2019 | 2019 | 2018 |
| Salaries, wages and benefits | \$ 2,413 | \$ 2,126 | \$ 2,162 |
| Transportation and communications | 352 | 108 | 315 |
| Services | 2,082 | 1,419 | 1,691 |
| Management fees | 3,000 | 2,088 | 2,414 |
| Marketing | 1,000 | 327 | 490 |
| Supplies and equipment | 50 | 23 | 37 |
| Amortization on tangible capital assets | 2 | 2 | 3 |
| | \$ 8,899 | \$ 6,093 | \$ 7,112 |

The Province provides pension benefits for all of the Corporation's permanent staff through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund which are both multi-employer defined benefit pension plans established by the Province of Ontario. The costs of the pension plans, and other post-retirement non-pension benefits provided to eligible staff are paid by the Province and are not included in these financial statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2019

9. Commitments:

Funds committed but not disbursed as at March 31, 2019 are \$247,311,930 (2018 – \$290,735,571).

10. Financial instruments:

The main risks that the Corporation's financial instruments are exposed to are credit risk, liquidity risk, and market risk.

(a) Credit risk:

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment that it has entered into. The Corporation provides credit to its loan portfolio clients in the normal course of operations. To mitigate the risk, the Corporation screens loan applicants, registers security on the loans and maintains provisions for contingent credit losses.

(b) Liquidity risk:

The Corporation's exposure to liquidity risk is low as cash and cash equivalents exceed the current commitments. The Corporation mitigates this risk by monitoring cash activities and expected outflows.

(c) Market risk:

Market risk is comprised of currency risk, interest rate risk and other price risk. The Corporation does not conduct any transactions that are denominated in foreign currency. The Corporation's loans receivable bear fixed interest rates. The Corporation's cash and cash equivalents balance includes Treasury Bills where market value is close to cost, so market risk is low.

11. Related Party Transactions

Administrative expenses, excluding amortization and bank charges, as presented in note 8, are provided by the Ministry of Energy, Northern Development and Mines and charged at cost.

Accounts payable and accrued liabilities includes amounts due to the Ministry of Energy, Northern Development and Mines at fiscal yearend for administrative expenses (see note 5).

Short term investments are managed on behalf of the Corporation by the Ontario Financing Authority under an Investment Management Agreement (see note 3).

The Statement of Operations includes \$13,794,663 (2018 - \$7,456,970) of conditional contributions made to other provincial government organizations.