

Financial Statements of

**NORTHERN ONTARIO HERITAGE FUND
CORPORATION**

For the year ended March 31, 2021

Northern Ontario Heritage Fund Corporation Year ended March 31, 2021

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 18, 2021.

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.



John Guerard, CPA, CA
Executive Director

Jocelyn Ouellet, CPA, CMA
Senior Corporate Controller



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, 2021, 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, 2021 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.

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.

Toronto, Ontario
June 18, 2021



Susan Klein, CPA, CA, LPA
Assistant Auditor General

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Financial Position

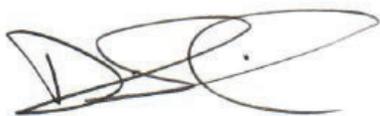
March 31, 2021, with comparative information for 2020

(\$000s)	2021	2020
Financial Assets		
Cash and cash equivalents (note 3)	\$ 108,634	\$ 204,259
Accrued interest receivable	91	784
Loans receivable (note 4)	28,002	28,750
Due from Province (note 5)	157,500	75,000
	294,227	308,793
Financial Liabilities		
Accounts payable and accrued liabilities (note 6)	4,979	12,449
Net financial assets	289,248	296,344
Accumulated Surplus	\$ 289,248	\$ 296,344

Commitments (note 8)

The accompanying notes are an integral part of these statements.

On behalf of the Board:



Co-Chair



Audit Committee

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Operations

Year ended March 31, 2021, with comparative information for 2020

(\$000s)	Budget 2021	2021	2020
Revenue:			
Province of Ontario grant	\$ 75,000	\$ 82,500	\$ 75,000
Interest on cash and cash equivalents	1,637	1,420	5,375
Interest on loans receivable	1,782	873	1,764
Recoveries	-	1,625	1,545
	78,419	86,418	83,684
Expenses:			
Conditional contributions	103,092	85,029	112,019
Credit losses (note 4)	5,351	1,341	3,637
Administration (note 7)	10,040	7,144	6,012
	118,483	93,514	121,668
Annual Deficit	\$ (40,064)	\$ (7,096)	\$ (37,984)
Accumulated Surplus, beginning of year		296,344	334,328
Accumulated Surplus, end of year		\$ 289,248	\$ 296,344

The accompanying notes are an integral part of these statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Changes in Net Financial Assets

Year ended March 31, 2021, with comparative information for 2020

(\$000s)	Budget 2021	2021	2020
Annual Deficit	\$ (40,064)	\$ (7,096)	\$ (37,984)
Net financial assets beginning of year		296,344	334,328
Net financial assets, end of year		\$ 289,248	\$ 296,344

The accompanying notes are an integral part of these statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Statement of Cash Flows

Year ended March 31, 2021 with comparative information for 2020

(\$000s)	2021	2020
Operating activities:		
Cash received from:		
Interest received on loans receivable	826	1,785
Interest received on cash and cash equivalents	2,138	6,430
Recoveries	49	260
	<u>3,013</u>	<u>8,475</u>
Cash paid for:		
Conditional contributions	(92,616)	(111,044)
Administration costs	(7,026)	(5,498)
	<u>(99,642)</u>	<u>(116,542)</u>
Cash provided by (applied to) operating transactions	<u>(96,629)</u>	<u>(108,067)</u>
Investing activities:		
Loan disbursements	(11,432)	(6,215)
Loan repayments	12,436	11,571
Cash provided by investing transactions	<u>1,004</u>	<u>5,356</u>
Net (decrease)/increase in cash and cash equivalents	(95,625)	(102,711)
Cash and cash equivalents, beginning of year	204,259	306,970
Cash and cash equivalents, end of year	<u>\$ 108,634</u>	<u>\$ 204,259</u>

The accompanying notes are an integral part of these statements.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2021

1. Nature of the organization:

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 promote 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 or retain jobs and strengthen the Northern economy through the delivery of targeted programs.

In preparation for the launch of a new suite of programs, the Corporation ceased accepting new applications for all of its programs as of September 30, 2020. The Corporation made the commitment that all applications received on or before September 30, 2020 would continue to work through the eligibility and approval process.

In October 2020, the Corporation launched the Northern Ontario Recovery Program (NORP), a time-limited program to help provide financial relief and support to small businesses in Northern Ontario affected by the COVID-19 pandemic. The program offered up to \$25,000 in the form of a conditional contribution for applications deemed eligible for funding.

In February 2021, the Corporation launched four new programs focused on creating or retaining jobs and strengthening the Northern Economy: Community Enhancement, People and Talent, Invest North and Cultural Supports. Funding for these programs are offered as a conditional contribution and/or loan.

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) Revenue recognition - Provincial government funding transfer:

The Province of Ontario (Province) contributes funds to provide capital for the Corporation’s lending and financial assistance activities.

Transfers from the Province are recognized as revenue in the financial

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2021

2. Significant accounting policies (continued):

statements when the transfer is authorized and any eligibility criteria are met, except to the extent that conditions give rise to an obligation that meets the definition of a liability. Funds received from the Province are recognized as deferred revenue when these conditions give rise to a liability. Funds received from the Province are recognized in the statement of operations as the liabilities are settled.

(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.

(d) Financial instruments:

The Corporation initially recognizes the measurement of cash and cash equivalents, loans receivable, accounts payable and accrued liabilities at cost and they are subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses on financial assets.

Transaction costs are added to the carrying value for financial instruments measured at cost or amortized cost.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations.

(e) Revenue recognition – interest income:

Interest income is recognized when earned on the accrual basis of accounting. Interest revenue on loans receivable is recognized in an amount estimated to be recoverable. Interest income ceases to be recognized when the collectability of either the principal or interest is not reasonably assured.

(f) Loans receivable:

Loans receivable are recorded at cost less any provision for loss allowance amount. Provision for loss allowances are used to reflect collectability and risk of loss, therefore loans receivable are recognized at the lower of cost and the net recoverable value.

Changes in the valuation of provision for loss allowances are reflected in the Statement of Operations as credit loss expense. The provision for loss allowances on loans consists of provisions on specific loans and a general provision on the remaining loans and is deducted from loans receivable. The general provision is based on historical experience of loans in good standing as well as all current relevant information available to management. Subsequent to initial recognition, the provision for loss allowances may be reduced if the loan recovery is subsequently assessed as likely and is recorded as Recoveries on the Statement of Operations.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2021

2. Significant accounting policies (continued):

Factors used to estimate impairment include, but are not limited to:

- Collection experience
- Financial performance of the borrower
- Project success
- Economic conditions
- Repayment deferral or restructure

Based on the individual assessment of each loan, the loan is not considered impaired if the collectability of the outstanding balance is considered to be in good standing. A general provision for credit loss is applied to these balances to further reduce the credit risk exposure to the Corporation. The general provision is based on historical experience of loans in good standing as well as all current relevant information available to management.

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

(g) Conditional contributions and forgivable loans:

Conditional contributions and forgivable loans provided to recipients are recognized as an expense in the statement of operations when they are authorized, and all eligibility criteria have been met by the recipient.

(h) 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 which considers payment history, credit worthiness, and risk of the industry that the borrower operates in.

The COVID-19 pandemic continues to add to the Corporation's measurement uncertainty. Management has used the experience from the past year to help estimate the impact it will have on the Corporation.

The provision for credit losses, see Note 4, is subject to measurement uncertainty due to the credit risk associated with borrower's ability to repay their loans.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2021

3. Cash and cash equivalents:

(\$000s)	2021	2020
Cash	\$ 108,634	\$ 97,896
Cash equivalents	-	106,363
	\$ 108,634	\$ 204,259

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.

During fiscal 2021, the Corporation drew down its full balance of investments managed by the Ontario Financing Authority, for the purpose of funding projects.

4. Loans receivable:

The purpose of the Corporation is to promote infrastructure improvements and economic development opportunities in Northern Ontario. Loans are provided as a means of financial assistance to various organizations to promote and stimulate economic initiatives in Northern Ontario.

Loans receivable balances consist of loans in good standing and loans in arrears net of provision for credit losses and loan discounts. Loans in arrears are loans in which repayments have not been made or have been restructured.

2021 (\$000s)	Loans in Good Standing	Loans in Arrears	Total
Loan Balance	\$ 42,996	\$ 10,614	\$ 53,610
Provision for credit Losses	(14,974)	(10,560)	(25,534)
Loan Discounts	(74)	-	(74)
Net Loan Balance	\$ 27,948	\$ 54	\$ 28,002

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2021

4. Loans receivable (continued):

2020 (\$000s)	Loans in Good Standing	Loans in Arrears	Total
Loan Balance	\$ 45,552	\$ 10,894	\$ 56,446
Provision for credit Losses	(16,906)	(10,660)	(27,566)
Loan Discounts	(130)	-	(130)
Net Loan Balance	\$ 28,516	\$ 234	\$ 28,750

Generally, loans bear fixed interest rates ranging from 0% to 7.5% and are fully repayable within 3 to 20 years from the date disbursed.

The evaluated measured risk helps determine the security requested. Security is determined on an individual basis. Loans approved with a value greater than \$100,000 require security.

The COVID-19 pandemic continues to create an increased collectability risk on loans in the sectors directly impacted by pandemic public health measures. An in-depth review of each loan and associated loan repayment history during the pandemic period was undertaken. Management is confident that the estimates calculated reflect the current risk exposure and have adequately provided for the loans receivable in the provision for credit loss balance.

In response to the pandemic, a six month loan repayment deferral and interest relief program was offered to all loan recipients to help offset the financial burden recipients were faced with. This resulted in a decline to the interest revenue received from loans. The deferral and relief period ended on September 30, 2020 with repayments and interest accumulation recommencing October 1, 2020.

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

(\$000s)	2021	2020
Balance, beginning of year	\$ 27,566	\$ 26,915
Loans written off in the year	(1,832)	(1,719)
Changes in provisions on active loans	1,376	3,655
Recovery of prior year provision	(1,576)	(1,285)
Balance, end of year	\$ 25,534	\$ 27,566

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2021

4. Loans receivable (continued):

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

(\$000s)	2021	2020
Loans written off in the year	\$ 1,832	\$ 1,719
Less: amounts provided for in previous years	(1,832)	(1,719)
Credit losses	–	–
Changes in provision on active loans	1,376	3,655
Discount adjustment	(35)	(18)
Net increase in loan loss provision	1,341	3,637
Credit losses	\$ 1,341	\$ 3,637

The change in the loan discount balances are as follows:

(\$000s)	2021	2020
Balance, beginning of year	\$ 130	\$ 190
Amount of loan discount written down	(35)	(18)
Amount amortized to interest on loans receivable	(21)	(42)
Balance, end of year	\$ 74	\$ 130

5. Due from Province:

(\$000s)	2021	2020
Balance, beginning of year	\$ 75,000	\$ –
Approved transfer payment allocation	82,500	75,000
Amounts received	–	–
Balance, end of year	\$ 157,500	\$ 75,000

The amount Due from the Province is the transfer payment amount owing to the Corporation by the Province, which is payable to the Corporation when cash balances are required.

In response to the demand on the Corporation's Northern Ontario Recovery Program, the Ministry increased the transfer payment allocation for fiscal 2021 by \$7,500,000 to help alleviate the pressure on other program funding.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2021

6. 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 amounts due to the Ministry of Energy, Northern Development and Mines (ENDM) for administrative expenses. Amounts payable are due within the first quarter of the following fiscal year.

(\$000s)	2021	2020
Due to ENDM	\$ 1,278	\$ 1,160
Accrued liabilities	3,701	11,289
Total	\$ 4,979	\$ 12,449

7. Administration expenses:

Details of administration expenses in the year are as follows:

(\$000s)	Budget 2021	2021	2020
Salaries and benefits	\$ 2,510	\$ 2,457	\$ 2,254
Transportation and communications	230	24	62
Services	1,950	1,462	1,317
Management fees	3,000	3,067	2,367
Marketing	500	–	1
System Modernization	1,800	127	–
Supplies and equipment	50	7	11
	\$ 10,040	\$ 7,144	\$ 6,012

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, 2021

8. Commitments:

Funds committed but not disbursed as at March 31, 2021 as eligibility criteria has not yet been met by recipients are \$248,844,082 (2020 - \$220,984,697). This total includes \$223,648,209 in conditional contributions and \$25,195,873 in loans (2020 – \$195,421,341 conditional contributions and \$25,563,356 loans).

9. 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 is exposed to credit risk through its loans receivable. 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. The Corporation is also exposed to credit risk through the other receivable amount due from the Province through the Ministry of Energy, Northern Development and Mines. However, the risk is considered low as the balance owing is from the Province. The maximum credit risk is the carrying value of the loans receivable and other receivable balances. Refer to notes 4 and 5 for further details.

(b) Liquidity risk:

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation is exposed to liquidity risk through its accounts payable and accrued liabilities. The Corporation's exposure to liquidity risk is low as financial assets exceed the current commitments. The Corporation mitigates this risk by monitoring cash activities and expected outflows. Accounts payable and accrued liabilities are due within the first quarter of the following fiscal year. Refer to note 6 for further details.

(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.

There have not been any changes from the prior year in the Corporation's exposure to liquidity risk or market risk or the policies, procedures and methods it uses to manage and measure those risks. The Corporation's exposure to credit risk has not increased further compared to the prior year as a result of the impacts of COVID-19 on its loans receivable as outlined in note 4.

NORTHERN ONTARIO HERITAGE FUND CORPORATION

Notes to Financial Statements

Year ended March 31, 2021

10. Related Party Transactions:

Administrative expenses, as presented in note 7, are provided by the Ministry of Energy, Northern Development and Mines and charged at cost. Included in management fees is \$1,909,577 (2020 - \$1,273,574) paid to the Ministry of Energy, Northern Development and Mines for due diligence services rendered throughout the year.

Accounts payable and accrued liabilities includes amounts due to the Ministry of Energy, Northern Development and Mines at fiscal year end for administrative expenses (see note 6).

Due from Province includes amounts due to the Corporation from the Ministry of Energy, Northern Development and Mines at fiscal year end (see note 5).

Cash equivalents 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 \$4,593,588 (2020 - \$8,410,080) of conditional contributions made to other entities commonly controlled by the Province of Ontario, and their related entities.