Financials

2020 ANNUAL REPORT

Provident10

REST ASSURED

Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

PROVIDENT[10]

KPMG LLP
TD Place
140 Water St., Suite 1001
St. John's NL A1C 6H6
Canada
Tel 709-733-5000
Fax 709-733-5050

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Provident[10]

Opinion

We have audited the financial statements of Provident[10] (the Entity), which comprise:

- the statement of financial position as at December 31, 2020
- the statement of operations for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the financial position of the Entity as at December 31, 2020, and its results of operations and its cash flows for the year then ended in accordance with Canadian Accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Report as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, 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 Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants
St. John's, Canada
June 18, 2021

PROVIDENT[10]

STATEMENT OF FINANCIAL POSITION

31 December 2020
with comparative information for 31 December 2019

	2020 (000s)	2019 (000s)
Assets		
Current assets		
Cash	$ 1,965	$ 1,844
Receivable from Province of Newfoundland and Labrador	45	19
HST receivable	92	135
Prepaid expenses	306	256
Current portion of promissory note receivable (note 2)	47,464	44,777
	49,872	47,031
Capital assets (note 3)	1,116	1,317
Promissory note receivable (note 2)	2,364,447	2,411,911
Total assets	**2,415,435**	**2,460,259**
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,696	$ 1,278
Payable to Public Service Pension Plan (note 4)	490	777
Payable to Province of Newfoundland and Labrador (note 9)	358	532
Deferred tenant inducement	388	450
Straight-line rent	105	111
Current portion of promissory note payable (note 2)	47,464	44,777
	50,501	47,925
Other post-employment benefits liabilities (note 6)	487	423
Promissory note payable (note 2)	2,364,447	2,411,911
Total liabilities	**2,415,435**	**2,460,259**
Commitments (note 11)		
Net assets	$ -	$ -

On behalf of the Board:

Director Original signed copies on file.

Director Original signed copies on file.

The accompanying notes to financial statements are an integral part of this financial statement.

PROVIDENT[10]

STATEMENT OF OPERATIONS

For the year ended 31 December 2020
with comparative figures for the year ended 31 December 2019

	2020 (000s)	2019 (000s)
Revenue		
Management fees (note 9)	$ 10,298	$ 9,468
Interest	143,223	145,757
	153,521	155,225
Expenses		
Salaries and benefits	6,579	5,356
Professional services	877	1,076
Directors and committees	110	143
Postage and service charges	188	130
Interest	143,223	145,757
Amortization	230	285
Other operating expenses	2,314	2,478
Total expenses	**153,521**	**155,225**
Excess of revenue over expenses	$ -	$ -

The accompanying notes to financial statements are an integral part of this financial statement.

PROVIDENT10

STATEMENT OF CASH FLOWS

For the year ended 31 December 2020
with comparative figures for the year ended 31 December 2019

	2020 (000s)	2019 (000s)
Cash provided by (used in):		
Operating activities		
Net earnings	$ -	$ -
Items not involving cash:		
Amortization of capital assets	292	348
Amortization of tenant inducement	(62)	(63)
(Decrease) increase in straight-line rent	(6)	6
Increase in other post-employment benefits liabilities	64	20
	288	311
Change in non-cash operating working capital:		
(Increase) decrease in receivable from Province of Newfoundland and Labrador	(26)	27
Decrease (increase) in HST receivable	43	(18)
(Increase) decrease in prepaid expenses	(50)	4
Increase in accounts payable and accrued liabilities	418	235
Decrease in payable to Public Service Pension Plan	(287)	(502)
(Decrease) increase in payable to Province of Newfoundland and Labrador	(174)	68
	212	125
Investing activities:		
Purchase of capital assets	(91)	(41)
Proceeds on promissory note receivable	44,777	42,243
	44,686	42,208
Financing activities:		
Repayment of promissory note payable	(44,777)	(42,243)
	(44,777)	(42,243)
Increase (decrease) in cash	**121**	**84**
Cash, beginning of year	**1,844**	**1,760**
Cash, end of year	**$ 1,965**	**$ 1,844**

The accompanying notes to financial statements are an integral part of this financial statement.

Provident[10], (the "Corporation"), is a not-for-profit organization incorporated on 31 March 2015 under the authority of Section 36.1 of the *Public Service Pensions Act 1991* (the "Act"). The Corporation changed its name to Provident[10] from Public Service Pension Plan Corporation, effective 27 August 2017.

The purpose of the Corporation is to act as Trustee of the Public Service Pension Plan (the "Plan") and to serve as administrator of the Plan. The Corporation is bound, with the Board of Directors, to act in accordance with the Joint Sponsorship Agreement between Her Majesty in Right of Newfoundland and Labrador and the Association of Allied Health Professionals, the Canadian Union of Public Employees, the International Brotherhood of Electrical Workers, the Newfoundland and Labrador Association of Public and Private Employees, and the Registered Nurses' Union Newfoundland and Labrador (collectively the "Unions"). A service level agreement (the "Service Level Agreement") was signed between the Corporation and the Province of Newfoundland and Labrador (the "Province") to allow the Province to continue to administer the Plan for an interim period of 12 months. The agreement expired on 31 March 2017. The Province continues to provide limited administration services covered by this agreement for the disbursement of pension payments on an interim basis (note 9).

The Corporation operates under a cost recovery basis, as provided for in the Service Level Agreement. The Corporation is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

1. SIGNIFICANT ACCOUNTING POLICIES

A) BASIS OF PRESENTATION

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Chartered Professional Accountants (CPA) Canada Handbook.

B) REVENUE RECOGNITION

Fee revenue is recognized as services are provided and collection is probable.

C) FINANCIAL INSTRUMENTS

Financial instruments are recorded at fair value on initial recognition. All financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Corporation has not elected to carry any such financial instruments at fair value. Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year. If there is an indicator of impairment, the Corporation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset, or the amount the Corporation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

D) USE OF ESTIMATES

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include accounts payable and accrued liabilities and other post-employment benefits. Actual results could differ from these estimates.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E) CAPITAL ASSETS

Capital assets are recorded at cost less accumulated depreciation and include amounts that are directly related to the acquisition, design, construction, development, improvement, or betterment of the assets directly attributable to construction and development.

The cost, less residual value, of capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements – Over the term of lease
Furniture, fixtures, and equipment – 5 years
Computer hardware – 3 years
Computer software – 3 years
Telephone system – 3 years

Capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or when the value of future economic benefits associated with the capital assets are less than their net book value.

F) OTHER POST-EMPLOYMENT BENEFITS LIABILITY

Under the collective agreement between the Newfoundland and Labrador Association of Public and Private Employees and the Corporation, employees identified on Schedule A of the Joint Sponsorship Agreement are eligible to participate in the Province's other post-employment benefits plan (the "OPEB Plan"). The OPEB Plan provides group life insurance and health care benefits on a cost shared basis to retired employees, should they continue to meet the Province's eligibility requirements. The associated employer portion of the costs for the Corporation's employees will be borne by the Corporation.

The obligation at the end of the year is determined based on the most recent actuarial valuation report prepared for accounting purposes. The measurement date of the obligation coincides with the Corporation's year end. The date of the most recent actuarial valuation of the obligation prepared for accounting purposes is 31 December 2020.

G) DEFERRED TENANT INDUCEMENTS:

In 2016, the Corporation entered a ten-year lease for its corporate office. Under that agreement, the landlord funded renovations to the space as tenant inducements. These tenant inducements are deferred and amortized on a straight-line basis over the term of the related lease.

H) STRAIGHT-LINE RENT

Under the Corporation lease for its corporate office, there are increases in base rent over the term of the lease. The base rent cost over the full lease term, including free rent periods, have been determined and are amortized on a straight-line basis over the term of the related lease.

2. PROMISSORY NOTE

The Province issued a $2.685 billion promissory note to the Corporation on 31 March 2015 as part of pension reform. The Plan has a right to receive the proceeds of the promissory note from the Province held by the Corporation. The note is receivable over 30 years in quarterly blended installments of principal and interest of $47 million. The promissory note bears interest of 6%. The payments will be made regardless of the funded status of the Plan. The promissory note is non-marketable.

As at 31 December 2020, the balance receivable is $2.412 billion (2019 - $2.457 billion).

2. PROMISSORY NOTE

(CONTINUED)

Principal repayments of the promissory note receivable by the Province to the Corporation and by the promissory note payable by the Corporation to the Plan over the next five years (in thousands) are as follows:

2021	$47,464
2022	$50,312
2023	$53,331
2024	$56,530
2025	$59,922

3. CAPITAL ASSETS

	Cost (000s)	Accumulated Amortization (000s)	2020 Net Book Value (000s)	2019 Net Book Value (000s)
Leasehold improvements	$ 1,426	$ 536	$ 890	$ 1,024
Furniture, fixtures and equipment	541	393	148	243
Computer hardware	232	164	68	26
Computer software	112	103	9	21
Telephone system	58	57	1	3
	$ 2,369	$ 1,253	$ 1,116	$ 1,317

4. PAYABLE TO PUBLIC SERVICE PENSION PLAN

Payable to the Plan represents total charges to the Plan plus HST less operating funding received.

The receivable is non-interest bearing and due when the invoice is rendered.

5. PAYABLE TO PROVINCE OF NEWFOUNDLAND AND LABRADOR

Amounts payable to the Province are non-interest bearing and payable on receipt of invoice.

6. OTHER POST-EMPLOYMENT BENEFITS LIABILITY

The obligation was calculated as at 31 December 2020 under Sections 3462 and 3463 of the CPA Canada Handbook - Accounting by the Corporation's actuary. In determining the liabilities under Section 3463 of the CPA Handbook, projected unit credit method prorated on service was used for the accounting valuation.

The significant assumptions used were as follows:

	31 December 2019 accrued benefit liability and 2020 expense	31 December 2020 accrued benefit liability
Discount rate	3.20%	2.80%
General inflation	2.00%	2.00%
Salary increases	3.50%	3.50%
Health premium inflation/trend	0.0% in 2018, 5.89% in 2019, decreasing linearly each year to an ultimate rate of 3.60% in 2040	0.0% in 2018, 5.89% in 2019, decreasing linearly each year to an ultimate rate of 3.60% in 2040
Dependant life premium increases	0.00% in 2018, 2.00% thereafter	0.00% in 2018, 2.00% thereafter
Mortality	CPM – 2014 Public Sector with generational projection using scale CPM-B	CPM – 2014 Public Sector with generational projection using scale CPM-B
Termination	2014 Public Sector Experience Study, with annual sample rates: • Age 25: 16.48% • Age 30: 9.49% • Age 35: 7.13% • Age 40: 5.56% • Age 45: 4.61% • Age 50: 3.60% • Age 55: 0.00%	2014 Public Sector Experience Study, with annual sample rates: • Age 25: 16.48% • Age 30: 9.49% • Age 35: 7.13% • Age 40: 5.56% • Age 45: 4.61% • Age 50: 3.60% • Age 55: 0.00%
Disability	None	None
Retirement	**If eligible to retire before 1 January 2020:** 50% at the earlier of age 55 with 30 years' service or age 60 with 5 years' service. Remainder at the earlier of the 35 years' service or age 65. **If not, then:** 57.5% at the earlier age of 58 with 30 years' service or age 60 with 10 years' service. Remainder at the earlier of 35 years' service or age 65.	**If eligible to retire before 1 January 2020:** 50% at the earlier of age 55 with 30 years' service or age 60 with 5 years' service. Remainder at the earlier of the 35 years' service or age 65. **If not, then:** 57.5% at the earlier age of 58 with 30 years' service or age 60 with 10 years' service. Remainder at the earlier of 35 years' service or age 65.
Spouse age difference	Females three years younger	Females three years younger
Members electing coverage benefits at retirement ("Participation Rate")	95%	95%
Coverage elected at retirement	65% Family	65% Family

6. OTHER POST-EMPLOYMENT BENEFITS LIABILITY (CONTINUED)

The other post-employment benefits liability as at 31 December 2020 is calculated as follows:

		(000s)
Other post-employment benefits liability assumed by the Corporation as at 31 December 2019	$	423
Other post-employment benefits cost		65
Company payments		(1)
Other post-employment benefits liability as at 31 December 2020	$	487

7. PENSION PLAN

Qualifying employees of the Corporation participate in the Plan, a multi-employer defined benefit pension plan, which provides pension benefits based on length of service and earnings.

Contributions to the Plan are required by both the employees and the employer. The Corporation's contributions range from 8.95% to 11.85% of pensionable earnings. Total employer contributions for 2020 were $405 thousand (2019 - $359 thousand) and are recognized in salaries and benefits expense in the statement of operations.

The Corporation is not responsible for any underfunded liability, nor does the Corporation have access to any surplus that may arise in the Plan.

8. SICK LEAVE

Under the collective agreement, employees identified on Schedule A of the Joint Sponsorship Agreement and covered by the collective agreement were entitled to carry over accumulated sick leave balances. The estimated gross value of the sick leave balances is $323 thousand (2019 - $303 thousand). Sick leave balances are non-vesting and further accumulations are prohibited. No amount has been accrued in the financial statements for the potential liability.

9. RELATED PARTY TRANSACTIONS

A) THE PROVINCE

The Province is related to the Corporation by its ability to appoint 6 of 14 members of the Corporation's Board of Directors.

The Corporation entered into the Service Level Agreement with the Province for management services to be provided on a cost recovery basis for an interim period. The Service Level Agreement with the Province expired on 31 March 2017. The Province continues to provide limited administration services for the disbursement of pension payments on an interim basis. The cost of the services in 2020 was $0.3 million (2019 - $0.2 million) and is based on an allocation of salaries and administrative costs.

Management fees earned of $26 thousand in 2020 (2019 - $127 thousand) are from the Province of Newfoundland and Labrador.

B) THE PLAN

The Corporation is related to the Plan as the Board of Directors oversees the Plan and the Corporation. Management fees earned of $10.3 million (2019 - $9.3 million) are from the Plan based on a cost recovery basis.

10. ECONOMIC DEPENDENCE AND CONCENTRATION OF CREDIT RISK

The Corporation is economically dependent on the Plan by virtue of the cost recovery basis under which it operates.

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Corporation is exposed to a concentration of credit risk with respect to the receivable from the Plan. The Corporation has assessed the amount as fully collectible.

On March 11, 2020 the outbreak of the novel strain of the coronavirus ("COVID-19") was officially declared a pandemic by the World Health Organization and has resulted in emergency measures to contain the spread of the virus and therefore impacted general economic conditions, including temporary closure of business and uncertainty around employment in certain industries.

10. ECONOMIC DEPENDENCE AND CONCENTRATION OF CREDIT RISK (CONTINUED)

As a result, there has been significant volatility in equity prices, interest rates, bond yields, and foreign exchange rates. The duration and impact of the COVID-19 outbreak is unknown at this time, leading to a high degree of volatility and uncertainty that will likely impact worldwide financial markets beyond 2020.

The Corporation is not exposed to any other significant financial risks.

11. COMMITMENTS

The Corporation is committed under the terms of its lease for office space to make the following minimum annual lease payments (in thousands):

2021	$592
2022	$592
2023	$592
2024	$592
2025	$592
Thereafter	$722
Total	$3,682

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