

Consolidated Financial Statements of

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

March 31, 2009

Auditors' Report

To the Members of the Legislative Assembly and
To the Minister of Community Services

We have audited the consolidated balance sheet of the Nova Scotia Housing Development Corporation as at March 31, 2009 and the consolidated statement of revenues and expenses for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Nova Scotia Housing Development Corporation as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Halifax, Nova Scotia
July 7, 2009

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Table of Contents

March 31, 2009

	<u>Page</u>
Consolidated Balance Sheet	1
Consolidated Statement of Revenues and Expenses	2
Notes to the Consolidated Financial Statements	3-12

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Consolidated Balance Sheet

March 31, 2009

	2009	2008
ASSETS		
Current		
Cash, accounts receivable and accrued interest	\$ 8,547,593	\$ 11,592,535
Current portion of mortgages receivable (Note 8)	4,165,952	3,640,988
	12,713,545	15,233,523
Mortgages receivable (Note 8)	127,308,703	77,522,903
Investment in land and social housing (Note 9)	324,589,546	324,652,921
Fund for future social housing expenditures (Note 5)	48,809,268	51,754,227
	\$ 513,421,062	\$ 469,163,574

LIABILITIES

Current		
Accounts payable and accrued liabilities	\$ 19,595,871	\$ 18,615,115
Current portion of long-term debt (Note 10)	15,259,379	14,160,024
Deferred federal contributions (Note 5)	48,809,268	51,754,227
	83,664,518	84,529,366
Long-term debt (Note 10)	291,632,437	299,830,035
Reserve for mortgage guarantees, indemnified loans and interest fluctuations (Note 11)	17,446,920	18,266,378
Partners' equity and minority interest (Note 13)	(2,023,730)	(75,242)
Housing Development Corporation Fund (Note 7)	122,700,917	66,613,037
	\$ 513,421,062	\$ 469,163,574

Commitments and contingencies (Note 11)

.....Deputy Minister of Community Services

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Consolidated Statement of Revenues and Expenses

Year ended March 31, 2009

	<u>2009</u>	<u>2008</u>
Revenue		
Rental revenue	\$ 53,065,822	\$ 52,611,308
Interest revenue	5,357,261	4,487,255
Land sales	129,899	504,189
Recoveries from Canada Mortgage and Housing Corporation (Notes 3 and 5)	67,537,854	59,768,132
Recoveries from provincial government departments and municipalities (Note 6)	44,925,442	49,782,238
	<u>171,016,278</u>	<u>167,153,122</u>
Expenses		
Administration fee (Note 4)	12,554,648	8,575,299
Amortization of investment in social housing	12,377,077	11,944,184
Cost of land sales	6,527	138,696
Operating costs, Housing Authorities and Rural and Native (Note 14)	81,363,113	78,322,496
Interest on long-term debt	26,543,334	27,889,653
Housing Renovation and Affordable Housing	16,625,017	23,257,565
Transfer to Housing Services	21,035,263	16,333,039
Increase in provision for doubtful accounts, recoveries and reserves	511,299	692,190
	<u>171,016,278</u>	<u>167,153,122</u>
Excess of revenues over expenses	\$ -	\$ -

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Notes to the Consolidated Financial Statements

March 31, 2009

1. STATUS OF THE CORPORATION

The Nova Scotia Housing Development Corporation (the "Corporation") is a crown corporation established by the Nova Scotia Housing Development Corporation Act.

Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and the eight Housing Authorities which are controlled by the Corporation including all program recoveries and expenses administered under the Social Housing Agreement, the Housing Renovation Agreement and the Affordable Housing Agreement.

Transactions and account balances between the Corporation and the Housing Authorities have been eliminated in these consolidated financial statements.

2. CHANGES IN ACCOUNTING POLICIES

The Corporation adopted the following recommendations of the CICA Handbook:

Financial instruments

Section 3862, *Financial instruments – Disclosures* and Section 3863, *Financial instruments – Presentation*. Section 3862 requires the disclosure of information about: a) the significance of financial instruments for the Corporation's financial position and performance and b) the nature and extent of risks arising from financial instruments to which the Corporation is exposed during the period and at the balance sheet date, and how the Corporation manages those risks. The required disclosures are included in note 17. Section 3863 contains standards for presentation of financial instruments and non-financial derivatives. The adoption of this Section had no material impact on the financial statements.

Capital disclosures

The Corporation adopted the recommendations of CICA Handbook Section 1535, *Capital Disclosures*. This Section requires the disclosure of information about how an entity defines and manages its capital and externally imposed capital requirements. The required disclosures are included in Note 18.

3. SIGNIFICANT ACCOUNTING POLICIES

The policies used in preparing the Corporation's consolidated financial statements are in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Statement of cash flows

Except for funds held by the Housing Authorities, the Corporation holds no cash. All disbursements are drawn from the Province of Nova Scotia (the "Province") and all receipts are deposited to accounts of the Province. A Statement of Cash Flows has not been provided as it would not provide meaningful additional information.

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Notes to the Consolidated Financial Statements

March 31, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Rental revenue recognition

Rental revenue is recorded when the service is provided.

Financial instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Corporation's designation of such instruments. They are as follows:

<u>Asset/liability</u>	<u>Classification</u>	<u>Measurement</u>
Cash	Held for trading	Fair value
Accounts receivable and accrued interest	Loans and receivables	Amortized cost
Mortgages receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

Transaction costs

Transaction costs related to held for trading financial assets are expensed as incurred. Transaction costs related to other liabilities and loans receivable are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest method.

Effective interest method

The Nova Scotia Housing Development Corporation uses the effective interest method to recognize interest income or expense which includes transaction costs or fees, premiums or discounts earned or incurred for financial instruments, except for those classified as held for trading.

Mortgages receivable

Mortgages receivable are carried net of provisions for concessionary assistance and doubtful recoveries.

A provision for doubtful recoveries is established to the extent that anticipated losses on bad debts exceed reserves. The Corporation charges mortgage insurance fees to borrowers to offset the cost of bad debt write offs from the mortgages receivable portfolio. These insurance fees are retained as reserves and are charged with the losses on bad debts when realized.

The provision for concessionary assistance represents the present value of estimated future subsidies provided by the Housing Services Division of the Department of Community Services (the "Housing Services Division") to low income borrowers to assist them in meeting their monthly mortgage payments to the Corporation.

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Notes to the Consolidated Financial Statements

March 31, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in Land and Social Housing

Investments in Social Housing represent housing properties which are carried at cost including the cost of site investigation, land, construction, administration and interest during construction less accumulated amortization.

The Corporation amortizes buildings using the straight-line method over the estimated remaining useful life of the properties.

Investments in land represent properties developed for resale. Land projects are carried at the lower of cost or estimated net realizable value. Land costs include acquisition and servicing costs, capitalized interest charges and administrative costs where applicable.

The Corporation has established reserves for risks associated with the reduction in the value of land developments.

Recoveries from CMHC

	<u>2009</u>	<u>2008</u>
Social Housing	\$ 58,483,541	\$ 47,532,384
Housing Renovation and Affordable Housing	9,054,313	12,235,748
	<u>\$ 67,537,854</u>	<u>\$ 59,768,132</u>

Social Housing

Pursuant to the Social Housing Agreement executed by the Corporation and the Canada Mortgage and Housing Corporation ("CMHC") which took effect October 1, 1997, CMHC is required to pay fixed annual contributions to the Corporation over the remainder of the CMHC commitment period ending June 30, 2034. Contributions from CMHC are used by both the Corporation and the Housing Services Division to meet the interest, amortization, subsidy and administration expenses of programs under the Social Housing Agreement.

Housing Renovations and Affordable Housing

Pursuant to the Home Renovation and Affordable Housing Agreements executed by the Corporation and CMHC, contributions made by CMHC are used by the Corporation to meet expenses of these programs.

Forgivable Loans

The Corporation accounts for forgivable loans as mortgages receivable net of an equivalent amount of reserves.

Employee future benefits

The cost of the Corporation's Public Service Award liability earned by employees is actuarially determined using the projected unit method pro-rated on service and management's best estimate of salary escalation and retirement ages of employees.

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Notes to the Consolidated Financial Statements

March 31, 2009

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Accounting Estimates

The preparation of 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 revenues and expenses during the reporting period's significant estimates. Estimates are used for certain items such as the provision for doubtful recoveries, reserves, the useful life of capital assets, and employee future benefits. Actual results could differ from those estimates.

4. ADMINISTRATION FEE

The administration of the Corporation is carried out by the staff of the Department of Community Services. The Corporation reimburses the Housing Services Division of the department to the extent that revenues earned by the Corporation would otherwise exceed expenditures.

5. FUND FOR FUTURE SOCIAL HOUSING EXPENDITURES

CMHC funding not used during the current fiscal year by the Corporation or the Housing Services Division is eligible for carry forward to future years. Unused CMHC funding is recorded separately in two interest bearing accounts entitled Fund for Future Social Housing Expenditures ("FFSHE") and Deferred Federal Contributions ("DFC").

	<u>2009</u>	<u>2008</u>
Opening balance, April 1	\$ 51,754,227	\$ 43,647,186
Gross public housing and other eligible expenditures per Department of Community Services	(85,333,857)	(82,119,205)
Less: Provincial contribution	19,447,707	27,394,905
Less: Municipal contribution	7,402,609	7,191,916
Expenses withdrawn from FFSHE	(58,483,541)	(47,532,384)
CMHC social housing transfer per agreement	53,918,507	54,432,706
	(4,565,034)	6,900,322
Interest earned by the fund	1,620,075	1,206,719
Net (decrease) increase in the fund	(2,944,959)	8,107,041
Closing Balance, March 31	\$ 48,809,268	\$ 51,754,227

Recoveries from CMHC are subject to an independent audit. Adjustments to recoveries, accounts receivable, DFC and FFSHE arising from the audit process, are recorded in the year the audit is finalized.

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Notes to the Consolidated Financial Statements

March 31, 2009

6. RECOVERIES FROM PROVINCIAL GOVERNMENT DEPARTMENTS AND MUNICIPALITIES

Costs incurred by the Corporation for Housing Renovation and Affordable Housing Agreements and the amortization of the provincial social housing assets and the interest costs associated with the debt financing of these assets are recovered from the applicable provincial government department or municipality:

	<u>2009</u>	<u>2008</u>
Department of Community Services		
Social Housing	\$ 26,919,487	\$ 27,394,905
Home Renovation and Affordable Housing	7,570,704	11,026,602
Recoveries for land losses and bad debts	(467,358)	41,099
Department of Health	3,500,000	4,000,000
Department of Natural Resources	-	127,716
Municipal share of public housing costs	7,402,609	7,191,916
	<u>\$ 44,925,442</u>	<u>\$ 49,782,238</u>

7. HOUSING DEVELOPMENT CORPORATION FUND

To provide working capital for the Nova Scotia Housing Development Corporation, the Housing Development Corporation Fund was established by Order-In-Council. The Fund is set up as a revolving account which records all receipts and expenditures, and allows the Corporation to borrow up to \$175 million.

8. MORTGAGES RECEIVABLE

Mortgages receivable have an amortization period of 25 years and five or ten-year renewal terms. Aggregate monthly payments are approximately \$307,163 including interest. Interest rates vary from 4.5% to 13.05%, with renewal dates ranging from April 1, 2009 to October 1, 2016. The mortgages are secured by registered first mortgages on the related properties. Included in the mortgages receivable are advances of \$55,036,585 made under the direct lending program and the Long-Term Care Nursing Home program of the Department of Health.

	<u>2009</u>	<u>2008</u>
Mortgages receivable	\$ 132,972,682	\$ 82,550,986
Less: Current portion due within one year	4,165,952	3,640,988
Provision for concessionary assistance and doubtful recoveries	1,498,027	1,387,095
	<u>5,663,979</u>	<u>5,028,083</u>
	<u>\$ 127,308,703</u>	<u>\$ 77,522,903</u>

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION
Notes to the Consolidated Financial Statements
March 31, 2009

8. MORTGAGES RECEIVABLE (continued)

Estimated principal repayments for the next five years are as follows:

2010	\$ 4,165,952
2011	4,203,143
2012	4,319,151
2013	4,478,239
2014	4,668,673
	<u>\$21,835,158</u>

9. INVESTMENT IN LAND AND SOCIAL HOUSING

	<u>2009</u>	<u>2008</u>
Investment in land	\$ 2,043,183	\$ 2,038,524
Investment in social housing	327,246,448	327,218,527
	<u>329,289,631</u>	<u>329,257,051</u>
Less: Provision for doubtful land recoveries	105,371	105,371
Provision for fire and liability losses	4,594,714	4,498,759
	<u>4,700,085</u>	<u>4,604,130</u>
	<u>\$ 324,589,546</u>	<u>\$ 324,652,921</u>

10. LONG-TERM DEBT

	<u>2009</u>	<u>2008</u>
Notes payable	\$ 249,010,887	\$ 253,316,264
Mortgages payable	57,880,929	60,673,795
	<u>306,891,816</u>	<u>313,990,059</u>
Less: Current portion due within one year	15,259,379	14,160,024
	<u>\$ 291,632,437</u>	<u>\$ 299,830,035</u>

Long-term debt is comprised of mortgages and notes payable from various lenders. The amortization periods of the notes payable range from 5 to 36 years. The mortgages payable amortization periods range from 20 to 35 years with either five or ten year renewal terms. Notes payable are secured by investments in social housing. Mortgages and notes payable are repayable in monthly or quarterly instalments of interest and principal.

Interest rates vary from 4.00% to 21.50% with renewal dates ranging from April 1, 2009 to January 1, 2034.

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Notes to the Consolidated Financial Statements

March 31, 2009

10. LONG-TERM DEBT (continued)

Estimated principal repayments for the next five years are as follows:

2010	\$ 15,259,379
2011	16,026,952
2012	16,459,947
2013	16,856,874
2014	17,019,921
	<u>\$ 81,623,073</u>

11. COMMITMENTS AND CONTINGENCIES

Pursuant to the October 1, 1997 Social Housing Agreement, CMHC requires the Corporation to indemnify CMHC against future losses related to their insured loan portfolio for Nova Scotia. As at March 31, 2009 there were 429 loans with an approximate outstanding balance of \$117,486,600 (2008 - \$126,247,680). In the event of default the Corporation would gain title to the assets and act toward mitigation of any loss. The Corporation has reserved for any possible losses, as noted.

The Corporation provides mortgage guarantees of interest and principal to lenders financing certain housing projects. As at March 31, 2009 a total of 29 (2008 - 16) mortgage guarantees were in effect, and the outstanding balance of mortgages guaranteed was \$11,274,802 (2008 - \$11,096,376).

The Corporation has established reserves for possible losses on mortgage guarantees and indemnified loans in the amount of \$17,446,920 (2008 - \$18,266,378) which includes a reserve for risks associated with interest fluctuation of \$3,200,000 (2008 - \$3,200,000). In addition, the Corporation has a provision of \$4,000,000 (2008 - \$4,000,000) for self insurance which is included in the provision for fire and other social housing losses as disclosed in Note 9.

There are various claims, which certain Housing Authorities are involved with arising out of the ordinary course of operations. Management does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty. The Corporation has established a provision for fire and liability losses as disclosed in Note 9 of these consolidated financial statements.

The Corporation in 2009-10 will build on its close relationship with the Department of Health to provide financial assistance to that department's \$ 260 million continuing care strategy.

The Department of Health has jurisdiction over homes for the aged (nursing homes) and Residential Care Facilities (for seniors). The Corporation will provide further financial assistance to reach government's goal of a total of 832 new nursing homes beds to be opened by the year 2010.

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Notes to the Consolidated Financial Statements

March 31, 2009

11. COMMITMENTS AND CONTINGENCIES (continued)

The Department of Health, in collaboration with the Corporation, has recently changed its requirements for the nursing homes it funds with respect to long term borrowing. Henceforth, all such borrowings either have to come from the Corporation or from other sources at interest rates that do not exceed those of the Corporation. The policy change, in conjunction with a major expansion in the nursing home sector is expected to result in as much as \$500 million in additional mortgage loans being issued from the Corporation in the next three years.

12. RELATED PARTY TRANSACTIONS

Included in Note 6 of these consolidated financial statements are recoveries from various Nova Scotia government departments and municipalities related to the Corporation by virtue of common control. Included in the long-term debt of the Corporation are notes payable owing to the Department of Finance of the Province totalling \$54,736,310.

13. PARTNERS' EQUITY AND MINORITY INTEREST

The Housing Authorities operate under partnership agreements among the Nova Scotia Department of Community Services – Housing Services and Municipal governments and each Housing Authority.

Under the terms of these agreements, the Housing Authorities, as trustees, have lease title to certain rental housing properties held by the corporation for the control, operations, management and administration of various projects.

The partner's equity and minority interest balance represents the cumulative equity share of each of the partners in the Housing Authority net assets. This is exclusive of those assets held separately by the Corporation. Accordingly in the Nova Scotia Housing Authorities these partners are the Department of Community Services ("DCS") and the 55 municipalities: 3 regional municipalities, 21 rural municipalities and 31 towns in the province.

During the year, the partner's equity and minority interest has increased its deficit balance of \$75,242 as at March 31, 2008 to \$2,023,730 as at March 31, 2009. This was in part due to increased public housing deficits and the Provincial equity (DCS portion) being further reduced as a result of reimbursement of other non-public housing expenses, such as those expenditures under the Winter works program and through the Affordable Housing Trust Fund.

The current annual \$7 million recovery from municipalities for their contribution to the cost of public housing is being phased out over two years, starting in 2009-10.

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Notes to the Consolidated Financial Statements

March 31, 2009

14. OPERATING COSTS, HOUSING AUTHORITIES AND RURAL AND NATIVE

	<u>2009</u>	<u>2008</u>
Administration	\$ 12,672,987	\$ 11,126,442
Maintenance	28,737,867	20,972,098
Modernization and improvements	1,348,673	9,213,966
Municipal taxes	7,969,056	8,280,476
Other operating	10,874,072	9,498,587
Utilities	19,760,458	19,230,927
	<u>\$ 81,363,113</u>	<u>\$ 78,322,496</u>

15. EMPLOYEE FUTURE BENEFITS

The Housing Authorities each have defined contribution pension plans available to eligible employees.

In 2007, an actuarial valuation of the Public Service award liability was performed. An extrapolation was performed by the actuary as at March 31, 2009 and the Corporation has recorded an obligation for Public Service awards of \$ 2,361,725 (2008 - \$1,959,115) accruing to employees in the Regional Housing Authorities at retirement.

16. TANGIBLE CAPITAL ASSETS

The investment in social housing disclosed in Note 9 of \$ 324,589,546 (2008 - \$324,652,921) includes social housing properties acquired through the Social Housing Agreement from the Housing Development Fund and from acquisitions dating back several decades to predecessor housing organizations within government.

These properties were originally recorded at net book value which included the cost of land and buildings. Net book value was previously amortized over the years. Management has estimated the portion assigned to land and buildings because historical information related to the original cost of land versus buildings is not available.

New construction and or acquisitions are separated as to land and building at the time of construction or acquisition.

The tangible capital assets consolidated from the Housing Authorities' financial statements are included in the net book value above. The rates and methods of depreciation used to amortize these assets over their estimated useful lives are as follows:

Buildings	5%	Declining balance
Equipment	20%	Declining balance
Computer equipment	30%	Declining balance
Vehicles	30%	Declining balance
Computer software	25%	Declining balance

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Notes to the Consolidated Financial Statements

March 31, 2009

16. TANGIBLE CAPITAL ASSETS (continued)

The following information on cost, accumulated amortization and net book value is available for those assets:

	2009			2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Buildings	\$ 7,700,498	\$ 3,192,117	\$ 4,508,381	\$ 4,658,205
Equipment	93,680	93,680	-	-
Vehicles	1,832,069	1,474,746	357,323	463,193
Computer software	6,569,606	5,094,340	1,475,266	1,409,564
	\$ 16,195,853	\$ 9,854,883	\$ 6,340,970	\$ 6,530,962

17. FINANCIAL INSTRUMENTS

Fair value

There is no secondary market for many of the financial assets in which the Corporation invests or for the debt it issues. These circumstances, together with the uncertainty and potentially broad range of outcomes pertaining to the future cash flows related to these items, render the calculation of fair values, with appropriate reliability, impractical.

Interest rate risk

The Corporation has current reserves for interest rate fluctuation of \$ 3,200,000. These reserves would be accessed if renewal rates exceed 9%. Currently these rates are renewing at 3%.

18. CAPITAL MANAGEMENT

The Corporation's objectives when managing capital are to maintain a capital structure that provides financial flexibility in order to preserve its ability to meet financial obligations.

In managing its capital structure, the Corporation monitors performance throughout the year to ensure working capital requirements are funded from operations. The Corporation will make adjustments to its capital structure to meet the objectives of the broader strategy or in response to changes in economic conditions and risks.