

Financial Statements of

**NOVA SCOTIA MUNICIPAL
FINANCE CORPORATION**

Year ended March 31, 2009



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AUDITORS' REPORT

To the Directors of Nova Scotia Municipal Finance Corporation

We have audited the balance sheet of the Nova Scotia Municipal Finance Corporation as at March 31, 2009 and the statement of revenue, expenditure and reserve fund for the year then ended. These 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 financial statements present fairly, in all material respects, the financial position of the 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Corporation taken as a whole. The supplementary information included in the schedule of administrative expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Chartered Accountants

Halifax, Canada

April 24, 2009

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Financial Statements

Year ended March 31, 2009

Financial Statements

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NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Balance Sheet

March 31, 2009, with comparative figures for 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,290,680	\$ 6,157,896
Accrued interest receivable	11,020,057	10,994,036
HST receivable	206	1,317
Accounts receivable	15,016	-
Principal due within one year on loans to units (note 3)	95,508,362	90,593,470
	112,834,321	107,746,719
Loans to units due beyond one year (note 3)	614,115,611	598,678,931
	\$ 726,949,932	\$ 706,425,650

Liabilities and Equity

Current liabilities:		
Accounts payable	\$ 72,209	\$ 120,769
Accrued interest payable	11,017,720	10,961,504
Principal due within one year on debentures (notes 3 & 4)	95,569,267	90,596,807
	106,659,196	101,679,080
Employee obligations (note 5(a))	50,139	95,406
Debentures due beyond one year (note 4)	614,086,421	598,710,682
	720,795,756	700,485,168
Equity:		
Reserve fund	6,154,176	5,940,482
	\$ 726,949,932	\$ 706,425,650

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Revenue, Expenditure and Reserve Fund

Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
Revenue:		
Interest on loans to units	\$ 35,059,329	\$ 34,324,492
Interest on short-term investments	150,508	263,791
Recovery of issue costs	349,435	433,596
Reserve fee	443,443	560,162
Sale of services	-	5,000
	<u>36,002,715</u>	<u>35,587,041</u>
Expenditure:		
Interest on debenture debt and short term loans	35,061,085	34,325,941
Debenture issue expenses	348,664	431,979
Administrative expenses (Schedule)	379,272	500,560
	<u>35,789,021</u>	<u>35,258,480</u>
Excess of revenue over expenditures	213,694	328,561
Reserve fund, beginning of year	5,940,482	5,611,921
Reserve fund, end of year	<u>\$ 6,154,176</u>	<u>\$ 5,940,482</u>

See accompanying notes to financial statements.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Cash Flows

Year ended March 31, 2009, with comparative figures for 2008

	2009	2008
Cash provided by (used in):		
Operations:		
Excess of revenue over expenditures	\$ 213,694	\$ 328,561
Items not involving cash:		
Amortization of fair value adjustment on loans to units	(84,129)	(109,226)
Amortization of fair value adjustment on debenture debt	84,773	109,868
Increase (decrease) in employee obligations	(45,267)	7,770
Change in non-cash operating working capital (note 6(b))	(32,270)	43,047
	136,801	380,020
Financing:		
Issue of debentures	110,860,233	140,041,000
Principal payments on debenture debt	(90,596,807)	(92,662,848)
	20,263,426	47,378,152
Investments:		
Issue of loans to units	(110,860,913)	(140,040,621)
Principal received on loans to units	90,593,470	92,686,851
	(20,267,443)	(47,353,770)
Increase in cash and cash equivalents	132,784	404,402
Cash and cash equivalents, beginning of year	6,157,896	5,753,494
Cash and cash equivalents, end of year	\$ 6,290,680	\$ 6,157,896

Supplemental cash flow information (note 6)

See accompanying notes to financial statements.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements

Year ended March 31, 2009

The Corporation was created by the Municipal Finance Corporation Act which was proclaimed on July 31, 1979. The Corporation began operations on January 1, 1980 and has a March 31 fiscal year-end. The object of the Corporation is to provide financing of approved capital projects for municipalities, municipal enterprises, regional school boards, and hospitals through a central borrowing authority. The Corporation is not subject to provincial or federal taxes.

1. Significant accounting policies:

(a) Cash and cash equivalents:

Cash and cash equivalents include cash on hand, balances with banks, short-term deposits with the Province of Nova Scotia with maturities of generally three months or less and any short-term loans to municipal units.

(b) Loans to units:

Loans to units are recorded at amortized cost.

(c) Debentures:

Debentures are recorded at amortized cost.

(d) Reserve Fund:

The Reserve Fund was created from accumulated surpluses and interest on funds which had been advanced by the Province of Nova Scotia and interest on other surplus monies. The purpose of the Reserve Fund is to provide a capital base for the Corporation, as well as to provide funds which may be required for administrative purposes and timing differences.

(e) Basis of presentation:

The Corporation recognizes income and expenses on an accrual basis.

(f) Use of 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 year. Actual results could differ from those estimates.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2009

2. Change in accounting policy:

Effective April 1, 2008, the Corporation adopted the Canadian Institute of Chartered Accountants' Handbook Sections 3862, Financial Instruments - Disclosures; and Section 3863, Financial Instruments - Presentation.

Section 3862, Financial Instruments - Disclosures, describes the required disclosures related to the significance of financial instruments on the Corporation's financial position and performance and the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863, Financial Instruments - Presentation, establishes standards for presentation of financial instruments and non-financial derivatives.

As required by the transitional provisions, these new standards have been applied without restatement of prior period amounts.

3. Loans to units:

- (a) Loans to municipal units in Nova Scotia are made on the security of their debentures and are due in annual instalments for periods up to a maximum of twenty years. Interest rates on the loans range from 1.0% to 6.875%. The fair value of loans to units as at March 31, 2009 is \$737,767,638 (2008 - \$718,536,450).

	2009	2008
Loans to units	\$709,623,973	\$689,272,401
Less current portion	95,508,362	90,593,470
	<u>\$614,115,611</u>	<u>\$598,678,931</u>

- (b) Principal payments receivable from units and debentures payable in each of the next five years are as follows:

	Loans to units	Debentures payable
2010	\$ 95,508,362	\$ 95,569,267
2011	81,843,844	81,850,065
2012	76,988,529	76,987,410
2013	72,969,191	72,975,397
2014	57,840,649	57,841,122

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2009

4. Debentures payable:

The debenture debt outstanding at March 31, 2009 totaling \$709,655,688 (2008 - \$689,307,489) is in Canadian funds and is fully guaranteed by the Province of Nova Scotia, with the exceptions of Series "AT" and the "FCM" loans which are private placements.

Series	Date issued	Maturity date	Interest rate	Amortized cost of debt outstanding	Fair value
AP*	Jan.30/98	2010 to 2019	5.750-6.125	\$ 28,359,852	\$ 31,127,635
AS*	May 17/99	2009	5.375	13,812,339	13,888,683
AT	May 28/99	2009 to 2015	1.000	1,181,250	1,108,863
AU*	Dec. 22/99	2009	6.750	7,055,000	7,335,311
AV*	June 1/00	2009 to 2010	6.875	6,724,223	7,035,913
AW*	Nov. 9/00	2009 to 2010	6.375	8,369,391	8,912,587
AX*	May 29/01	2009 to 2011	6.125-6.250	12,113,499	12,908,602
AY*	Nov. 7/01	2009 to 2011	5.750-6.000	7,405,492	7,953,522
AZ*	May 15/02	2009 to 2012	5.750-6.125	24,781,455	26,608,157
BA*	Nov. 7/02	2009 to 2017	5.125-6.000	13,631,099	14,581,654
BB*	Jan. 9/03	2009 to 2023	5.913	9,035,255	9,756,833
BC*	May 28/03	2009 to 2018	4.875-5.750	26,661,137	28,276,992
BD*	Oct. 15/03	2009 to 2018	4.375-5.375	12,110,731	12,737,483
BE*	June 10/04	2009 to 2019	4.500-5.750	16,731,012	17,801,734
BF*	Sept. 1/04	2009 to 2024	4.625-5.940	88,000,000	93,117,028
BG*	Nov. 25/04	2009 to 2019	4.300-5.325	18,583,000	19,565,934
BH*	June 1/05	2009 to 2020	3.655-4.880	41,401,000	42,420,056
BI*	Nov. 22/05	2009 to 2020	3.975-4.830	43,832,000	44,616,750
BJ*	June 1/06	2009 to 2021	4.405-5.080	42,597,000	44,343,170
BK*	Oct. 24/06	2009 to 2021	4.095-4.590	47,436,000	47,432,871
FCM-A	Oct. 31/06	2009 to 2016	2.550	664,640	642,291
FCM-B	Mar. 5/07	2010 to 2017	2.620	259,080	249,140
BL*	June 1/07	2009 to 2022	4.380-4.770	57,778,000	58,533,819
BM*	Oct. 17/07	2009 to 2022	4.577-5.210	70,273,000	73,357,306
BN*	Jul. 7/08	2009 to 2023	3.750 - 5.088	53,617,000	54,658,241
FCM-C	Sept. 30/08	2009 to 2018	2.190	661,233	612,429
BP*	Oct. 24/08	2009 to 2023	3.100-5.480	56,582,000	58,217,656
				709,655,688	737,800,660
Less current portion (note 3b)				95,569,267	
				\$614,086,421	\$737,800,660

**

* Placed directly with the Province of Nova Scotia. Interest is payable semi-annually, except for Series "AT", which is payable annually.

** The fair value of the debentures payable on March 31, 2008 was \$718,574,677.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2009

5. Employee obligations:

(a) Public Service Awards:

As at March 31, 2009, the Corporation has recorded a liability in the amount of \$50,139 (2008 - \$95,406) in respect of the provincial public service award for the employees of the Corporation.

(b) Employee future benefits/pension:

Permanent employees participate in the Nova Scotia Public Service Superannuation Fund (the "Plan"), a contributory defined benefit pension plan administered by the Province of Nova Scotia, which provides pension benefits based on length of service and earnings. Contributions to the Plan are required by both the employees and the employer. Total employer contributions for 2009 were \$13,659 (2008 - \$22,296) and are recognized as an expense in the year. The Corporation is not responsible for any under-funded liability, nor does the Corporation have any access to any surplus that may arise in this Plan.

6. Supplemental cash flow information:

(a) Cash and cash equivalents include:

	2009	2008
Cash	\$ 6,290,680	\$ 1,797,096
Short-term investments	-	4,360,800
	<u>\$ 6,290,680</u>	<u>\$ 6,157,896</u>

(b) Change in non-cash working capital:

	2009	2008
Accrued interest receivable	\$ (26,021)	\$ (972,204)
Other receivables	(13,905)	67
Accounts payable	(48,560)	88,614
Accrued interest payable	56,216	969,070
Due to municipal units	-	(42,500)
	<u>\$ (32,270)</u>	<u>\$ 43,047</u>

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2009

6. Supplemental cash flow information (continued):

(c) Supplemental cash flow information

	2009	2008
Interest paid	\$ 34,920,095	\$ 33,247,003
Interest received	\$ 34,918,904	\$ 33,506,853

7. Financial instruments:

(a) Fair value

The fair values of cash and cash equivalents, accrued interest receivable, other receivables, accounts payable, accrued interest payable and due to municipal units are assumed to approximate their carrying amounts because of their short-term to maturity. The fair value of the loans to units (note 3) and debentures payable (note 4) has been calculated using future cash flows (principal and interest) at current market rates available to the Corporation for the same or similar instruments.

The fair value of the loans to units and the debentures payable are determined using Canadian bond market conventions.

The yield to maturity curve by month for the Corporation was estimated using the following assumptions:

- The risk-free interest rate for each specified maturity term equal to the relevant benchmark Canada yield by term (Canada yield).
- The Nova Scotia credit spread relative to the Canada yield for each specified maturity term to reflect the Nova Scotia cost of funds as provided by CIBC World Markets.
- The Corporation's credit spread relative to the Nova Scotia credit spread for each specified maturity term based on the municipal credit spreads provided by CIBC World Markets and RBC Capital Markets.

The Corporation's yield to maturity on an annual basis for specified maturity terms is determined as the sum of the Canada yield, the Nova Scotia credit spread and the Corporation's credit spread. These inputs were used to determine the Corporation's yield to maturity curve by month.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2009

7. Financial instruments (continued):

(b) Interest rate risk

The Corporation's mandated rate of interest charged on loans to units is directly matched to its cost of borrowing, thereby mitigating the risk of equity erosion.

(c) Credit risk

Due to existing statutory provision for the recovery of any defaults by units, an allowance for doubtful accounts is not required.

It is management's opinion that the Corporation is not exposed to significant interest or credit risks arising from financial instruments.

8. Trust funds under administration:

The Corporation has no Trust Funds under its administration for the year ended March 31, 2009.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Schedule of Administrative Expenses

Year ended March 31, 2009, with comparative figures for 2008

	2009 budget	2009 actual	2008 actual
Salaries and benefits	\$ 358,598	\$ 224,639	\$ 325,794
Travel	12,000	1,808	3,452
Equipment and maintenance	6,550	2,093	7,737
Printing	3,500	2,095	2,506
Postage	1,400	1,850	1,578
Telecommunications	4,700	3,882	4,724
Stationary and supplies	3,800	1,492	2,526
Professional services	32,800	26,600	28,170
Bank charges	3,100	3,450	4,264
Directors' fees and expenses	21,775	6,230	5,657
Professional development	14,000	8,665	10,012
Dues and subscriptions	3,000	2,521	2,718
Insurance	1,090	901	901
Rent	30,000	31,277	22,000
Other	500	242	34,289
Special projects	12,500	7,527	9,965
Sponsorship projects	57,000	54,000	34,267
	\$ 566,313	\$ 379,272	\$ 500,560