

Financial Statements of

**NOVA SCOTIA MUNICIPAL  
FINANCE CORPORATION**

Year ended March 31, 2011



**KPMG LLP**  
**Chartered Accountants**  
Suite 1500 Purdy's Wharf Tower I  
1959 Upper Water Street  
Halifax NS B3J 3N2  
Canada

Telephone (902) 492-6000  
Fax (902) 492-1307  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## INDEPENDENT AUDITORS' REPORT

To the Directors of Nova Scotia Municipal Finance Corporation

We have audited the accompanying financial statements of the Nova Scotia Municipal Finance Corporation which comprise the balance sheet as at March 31, 2011, and the statements of revenue, expenditure and reserve fund and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, 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.

### *Auditors' Responsibility*

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 comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nova Scotia Municipal Finance Corporation as at March 31, 2011, 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  
June 10, 2011  
Halifax, Canada

# **NOVA SCOTIA MUNICIPAL FINANCE CORPORATION**

Financial Statements

Year ended March 31, 2011

## Financial Statements

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# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

## Balance Sheet

March 31, 2011, with comparative figures for 2010

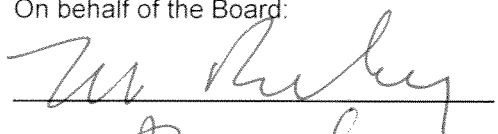
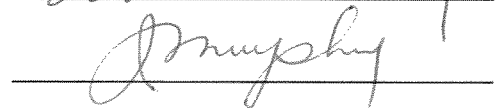
	2011	2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 6,440,526	\$ 6,362,635
Accrued interest receivable	10,746,624	10,938,412
HST receivable	486	1,444
Accounts receivable	-	9,361
Principal due within one year on loans to units (note 2)	96,508,559	90,876,542
	113,696,195	108,188,394
Loans to units due beyond one year (note 2)	660,034,872	637,451,675
	\$ 773,731,067	\$ 745,640,069

## Liabilities and Equity

Current liabilities:		
Accounts payable	\$ 50,449	\$ 70,847
Accrued interest payable	10,734,037	10,933,171
Principal due within one year on debentures (notes 2 & 3)	96,508,410	90,882,065
	107,292,896	101,886,083
Employee obligations (note 4(a))	53,917	38,917
Debentures due beyond one year (note 3)	660,002,517	637,417,773
	767,349,330	739,342,773
Equity:		
Reserve fund	6,381,737	6,297,296
	\$ 773,731,067	\$ 745,640,069

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, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Interest on loans to units	\$ 34,459,640	\$ 35,195,535
Interest on short-term investments	72,497	20,864
Recovery of issue costs	365,703	364,409
Reserve fee	476,181	456,615
	35,374,021	36,037,423
Expenditure:		
Interest on debenture debt and short term loans	34,457,915	35,194,405
Debenture issue expenses	366,257	365,034
Administrative expenses (Schedule)	465,408	334,864
	35,289,580	35,894,303
Excess of revenue over expenditures	84,441	143,120
Reserve fund, beginning of year	6,297,296	6,154,176
Reserve fund, end of year	\$ 6,381,737	\$ 6,297,296

See accompanying notes to financial statements.

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

## Statement of Cash Flows

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Excess of revenue over expenditures	\$ 84,441	\$ 143,120
Items not involving cash:		
Amortization of fair value adjustment on loans to units	(46,514)	(58,792)
Amortization of fair value adjustment on debenture debt	47,154	59,418
Increase (decrease) in employee obligations	15,000	(11,222)
Change in non-cash operating working capital (note 5(b))	(17,425)	151
	82,656	132,675
Financing:		
Issue of debentures	119,046,000	114,154,000
Principal payments on debenture debt	(90,882,065)	(95,569,268)
	28,163,935	18,584,732
Investments:		
Increase in loans to units	(119,045,242)	(114,153,814)
Decrease in loans to units	90,876,542	95,508,362
	(28,168,700)	(18,645,452)
Increase in cash and cash equivalents	77,891	71,955
Cash and cash equivalents, beginning of year	6,362,635	6,290,680
Cash and cash equivalents, end of year	\$ 6,440,526	\$ 6,362,635

Supplemental cash flow information (note 5)

See accompanying notes to financial statements.

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

## Notes to Financial Statements

Year ended March 31, 2011

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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, 2011

## 2. 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 fifteen years. Interest rates on the loans range from 1.00% to 6.25%. The fair value of loans to units as at March 31, 2011 is \$789,948,249 (2010 - \$755,103,909).

	2011	2010
Loans to units	\$756,543,431	\$728,328,217
Less current portion	96,508,559	90,876,542
	<u>\$660,034,872</u>	<u>\$637,451,675</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
2012	\$ 96,508,559	\$ 96,508,410
2013	92,546,133	92,552,397
2014	77,427,587	77,428,122
2015	73,271,212	73,267,692
2016	<u>73,148,045</u>	<u>73,139,215</u>



# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

## 3. Debentures payable:

The debenture debt outstanding at March 31, 2011 totaling \$756,510,927 (2010 - \$728,299,838) 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. Interest is payable semi-annually, except for Series "AT", which is payable annually.

Series	Date issued	Maturity date Calendar Year	Interest rate	Amortized cost of debt outstanding	Fair value
AP*	Jan.30/98	2012 to 2019	5.875-6.125	\$ 23,975,889	\$ 26,619,003
AT	May 28/99	2011 to 2015	1.000	843,750	816,153
AX*	May 29/01	2011	6.250	7,022,169	7,076,315
AY*	Nov. 7/01	2011	6.000	4,288,267	4,407,130
AZ*	May 15/02	2011 to 2012	6.125	15,828,797	16,416,470
BA*	Nov. 7/02	2011 to 2017	5.500-6.000	7,792,324	8,258,686
BB*	Jan. 9/03	2011 to 2023	5.913	8,149,599	9,054,247
BC*	May 28/03	2011 to 2018	5.125-5.750	17,511,577	18,466,407
BD*	Oct. 15/03	2011 to 2018	4.750-5.375	8,484,136	8,996,660
BE*	June 10/04	2011 to 2019	5.000-5.750	11,929,642	12,627,139
BF*	Sept. 1/04	2011 to 2024	5.055-5.940	77,000,000	84,570,481
BG*	Nov. 25/04	2011 to 2019	4.670-5.325	12,551,000	13,240,197
BH*	June 1/05	2011 to 2020	4.020-4.880	33,001,000	34,401,543
BI*	Nov. 22/05	2011 to 2020	4.160-4.830	34,290,000	35,771,748
BJ*	June 1/06	2011 to 2021	4.550-5.080	33,305,000	34,943,059
BK*	Oct. 24/06	2011 to 2021	4.135-4.590	39,766,000	41,009,750
FCM-A	Oct. 31/06	2011 to 2016	2.550	498,480	492,678
FCM-B	Mar. 5/07	2011 to 2017	2.620	194,310	191,596
BL*	June 1/07	2011 to 2022	4.380-4.770	48,444,000	50,360,253
BM*	Oct. 17/07	2011 to 2022	4.680-5.210	55,489,000	58,722,216
BN*	Jul. 7/08	2011 to 2023	4.107 - 5.088	44,750,000	46,952,242
FCM-C	Sept. 30/08	2011 to 2018	2.190	528,987	507,732
BP*	Oct. 24/08	2011 to 2023	3.883-5.480	46,699,000	49,479,712
BQ*	June 1/09	2011 to 2024	1.692 - 5.644	64,575,000	67,066,052
BR*	Oct 27/09	2011 to 2024	1.679 - 4.939	40,547,000	40,963,168
BS*	June 29/10	2011 to 2025	1.510-4.875	57,485,000	58,344,780
BT*	Nov 9/10	2011 to 2025	1.550-4.410	61,561,000	60,158,116
				756,510,927	789,913,533
Less current portion (note 2b)				96,508,410	
				\$660,002,517	\$789,913,533 **

\* Placed directly with the Province of Nova Scotia.

\*\* The fair value of the debentures payable on March 31, 2010 was \$755,075,107.

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

## 4. Employee obligations:

### (a) Public Service Awards:

As at March 31, 2011, the Corporation has recorded a liability in the amount of \$53,917 (2010 - \$38,917) 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 2011 were \$20,507 (2010 - \$10,557) 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.

## 5. Supplemental cash flow information:

### (a) Cash and cash equivalents include:

	2011	2010
Cash	\$ 37,526	\$ 109,851
Short-term investments	6,403,000	6,252,784
	<u>\$ 6,440,526</u>	<u>\$ 6,362,635</u>

### (b) Change in non-cash working capital:

	2011	2010
Accrued interest receivable	\$ 191,788	\$ 81,645
Other receivables	10,319	4,417
Accounts payable	(20,398)	(1,362)
Accrued interest payable	(199,134)	(84,549)
	<u>\$ (17,425)</u>	<u>\$ 151</u>

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

## 5. Supplemental cash flow information (continued):

### (c) Supplemental cash flow information

	2011	2010
Interest paid	\$ 34,609,895	\$ 35,219,536
Interest received	\$ 34,612,149	\$ 35,220,075

## 6. Financial instruments:

### (a) Fair value

The fair values of cash and cash equivalents, accrued interest receivable, HST receivable, accounts receivable, accounts payable and accrued interest payable are assumed to approximate their carrying amounts because of their short-term to maturity. The fair value of the loans to units (note 2) and debentures payable (note 3) 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, 2011

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## 6. Financial instruments (continued):

Fair value measurements recognized in notes 2 and 3 are categorized using the fair value hierarchy that reflects the significance of inputs used in determining the fair values.

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for assets and liabilities that are not based on observable market data.

Cash and cash equivalents have been categorized as Level 1 financial instruments and the fair value of loans receivable and debentures payable have been categorized as Level 3 financial instruments.

### (b) Associated risks:

The Corporation's financial instruments are primarily exposed to interest rate volatility, credit and liquidity risk.

#### (i) Interest rate risk

Interest rate risk is the risk that the market value of the Corporation's investments and debt will fluctuate due to changes in market interest rates. Interest rate risk is mitigated due to the fact that 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. It is management's opinion that the Corporation is not exposed to significant interest rate risk arising from financial instruments.

#### (ii) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Corporation. Due to the existing statutory provision for the recovery of any defaults by units, an allowance for doubtful accounts is not required. Due to the fact that all loans to units are guaranteed by the Province of Nova Scotia, it is management's opinion that the Corporation is not exposed to significant credit risk arising from financial instruments.

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2011

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## 6. Financial instruments (continued):

### (iii) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity requirements are managed through the receipt of payments on the loans to units and short-term investments and interest earned on the loans to units and short-term investments. These sources of funds are used to satisfy debt service requirements on the debentures and short-term loans and to pay operating expenses. In the normal course of business, the Corporation enters into contracts that give rise to commitments for future payments which may also impact the Corporation's liquidity. The Corporation also maintains cash on hand for liquidity purposes and to pay accounts payable and accrued liabilities. It is management's opinion that the Corporation is not exposed to significant liquidity risk arising from financial instruments.

## 7. Capital risk management:

The main objective of the Corporation is to provide financing, guaranteed by the Province of Nova Scotia, on approved capital projects at the lowest cost available within acceptable risk parameters and to provide advice and assistance to clients regarding financial management. Increases in funds are a direct result of loan principal receipts, interest income generated from the loans to units and short-term investments, recovery of issue costs and the levy of the reserve fee. The main use of funds is to pay outstanding principal and interest on the debenture debt and short-term loans, administrative expenses and debenture issue expenses. The loan principal receipts and debenture principal payments are matched in both principal repayments and interest rates, thus reducing the Corporation to interest rate risk and capital erosion. The Corporation carries out its programs in conjunction with the budget approved by the Minister of Service Nova Scotia and Municipal Relations.

## 8. Trust funds under administration:

The Corporation has no Trust Funds under its administration for the year ended March 31, 2011.

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

## Schedule of Administrative Expenses

Year ended March 31, 2011, with comparative figures for 2010

	2011 Budget	2011 Actual	2010 Actual
Salaries and benefits	\$ 323,690	\$ 300,518	\$ 181,033
Travel	12,000	6,933	1,279
Equipment and maintenance	5,400	4,753	2,706
Printing	3,600	2,776	5,956
Postage	2,000	2,000	2,049
Telecommunications	4,900	4,970	4,573
Stationary and supplies	3,800	1,864	2,103
Professional services	28,000	36,835	26,594
Bank charges	3,500	4,787	4,192
Directors' fees and expenses	16,175	9,234	11,179
Audit Committee fees and expenses	5,300	1,498	1,346
Professional development	14,000	7,704	4,195
Dues and subscriptions	2,340	2,390	2,561
Insurance	935	750	918
Rent	30,000	12,136	28,659
Other	22,500	15,967	324
Special projects	12,500	13,793	13,047
Sponsorship projects	17,000	11,500	11,150
Dalhousie MPA municipal stream	25,000	25,000	31,000
	\$ 532,640	\$ 465,408	\$ 334,864