

Financial Statements of

**NOVA SCOTIA MUNICIPAL
FINANCE CORPORATION**

Year ended March 31, 2015



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INDEPENDENT AUDITORS' REPORT

To the Directors of Nova Scotia Municipal Finance Corporation

We have audited the accompanying financial statements of Nova Scotia Municipal Finance Corporation which comprise the statement of financial position as at March 31, 2015, the statements of operations and accumulated surplus, changes in net financial assets 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 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.

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 the 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, 2015, and its results of operations and its changes in net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Chartered Accountants
June 16, 2015
Halifax, Canada

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Financial Statements

Year ended March 31, 2015

Financial Statements

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NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Financial Position

March 31, 2015, with comparative information for 2014

	2015	2014
Financial assets:		
Cash and cash equivalents (note 5(a))	\$ 7,308,963	\$ 6,684,214
Accrued interest receivable	9,824,171	9,973,919
HST receivable	674	152
Accounts receivable	5,594	5,513
Loans (note 2)	815,314,249	797,097,462
	832,453,651	813,761,260
Financial liabilities:		
Accounts payable	39,865	51,009
Employee obligation (Note 4)	80,477	98,917
Accrued interest payable	9,816,706	9,964,606
Short-term loan due to Province of Nova Scotia (Note 7)	660,000	-
Debentures (note 3)	815,280,085	797,058,969
	825,877,133	807,173,501
Net financial assets	6,576,518	6,587,759
Accumulated surplus	\$ 6,576,518	\$ 6,587,759

See accompanying notes to audited financial statements.

On behalf of the Board:

Director

Director

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Operations and Accumulated Surplus

Year ended March 31, 2015, with comparative information for 2014

	Budget 2015	Actual 2015	Actual 2014
Revenue:			
Interest on loans	31,661,915	\$ 30,916,294	\$ 31,823,718
Interest on short-term investments	68,526	73,575	74,733
Recovery of issue costs	422,000	364,971	389,566
Administration fee	501,820	462,513	474,685
	32,654,261	31,817,353	32,762,702
Expenses:			
Interest on debenture debt and short term loans	31,660,039	30,916,968	31,821,744
Debenture issue expenses	404,140	367,409	386,911
Administrative expenses	581,491	544,217	523,357
	32,645,670	31,828,594	32,732,012
Annual operating surplus (deficit)	8,591	(11,241)	30,690
Accumulated surplus, beginning of year	6,587,759	6,587,759	6,557,069
Accumulated surplus, end of year	\$ 6,596,350	\$ 6,576,518	\$ 6,587,759

See accompanying notes to financial statements.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Changes in Net Financial Assets

Year ended March 31, 2015, with comparative information for 2014

		Budget 2015		Actual 2015		Actual 2014
Annual operating surplus (deficit)	\$	8,591	\$	(11,241)	\$	30,690
Increase in net financial assets		8,591		(11,241)		30,690
Net financial assets, beginning of year		6,587,759		6,587,759		6,557,069
Net financial assets, end of year	\$	6,596,350	\$	6,576,518	\$	6,587,759

See accompanying notes to audited financial statements

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Cash Flows

Year ended March 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
Annual operating surplus	\$ (11,241)	\$ 30,690
Item not involving cash:		
Amortization of fair value adjustment on loans	(9,142)	(11,805)
Amortization of fair value adjustment on debenture debt	9,142	11,805
Increase (decrease) in employee obligations	(18,440)	15,000
Change in non-cash operating working capital (note 5(b))	650,101	30,280
	620,420	75,970
Investing activities:		
Issuance of loans to units	(115,628,145)	(118,671,225)
Payments received on loans to units	97,420,500	93,205,360
	(18,207,645)	(25,465,865)
Financing activities:		
Proceeds of debentures	115,628,000	118,672,000
Principal payments on debenture	(97,416,026)	(93,206,456)
	18,211,974	25,465,544
Increase in cash and cash equivalents	624,749	75,649
Cash and cash equivalents, beginning of year	6,684,214	6,608,565
Cash and cash equivalents, end of year	\$ 7,308,963	\$ 6,684,214

Supplemental cash flow information (note 5 (c))

See accompanying notes to audited financial statements.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements

Year ended March 31, 2015

Nova Scotia Municipal Finance Corporation (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) Basis of accounting:

The financial statements of the Corporation have been prepared in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board ("PSAB") of the Chartered Professional Accountants of Canada ("CPA").

The Corporation follows the accrual method of accounting for revenues and expenses. Revenues are recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay.

(b) 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 three months or less and short-term loans. Cash and cash equivalents are recorded at amortized cost.

(c) Loans:

Loans are recorded at amortized cost.

(d) Employee future benefits:

The Corporation provides certain employee benefits which will require funding in future periods.

Public service awards:

Upon retirement, employees are eligible for a public service award equal to one week's salary per year of service to a maximum of twenty-six years. Management recognizes compensation expense on an accrual basis based on management's best estimate.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2015

1. Significant accounting policies (continued):

Employee pension plan:

Permanent employees participate in the Nova Scotia Public Service Superannuation Plan (the "Plan"), a contributory 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 is not responsible for any under-funded liability, nor does the Corporation have any access to any surplus that may arise in this Plan. The cost of the Plan is the Corporation's required contributions due to the plan during the period.

(e) Debentures:

Debentures are recorded at amortized cost.

(f) Accumulated surplus:

The accumulated surplus was created from annual accumulated surpluses and interest on funds which had been advanced by the Province of Nova Scotia and interest on other surplus monies. Included in the accumulated surplus is the reserve fund which provides a capital base for the Corporation, as well as funds which may be required for administrative purposes and timing differences. The board requires a reserve fund to be maintained between a range of \$6 million to \$7 million.

(g) Revenue recognition:

Interest revenue on loans is recognized on an accrual basis and reported as revenue in the period earned.

(h) 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, 2015

2. Loans:

- (a) Loans are made on the security of 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 6.125%. Repayment terms are negotiated on specific loans and would normally not exceed twenty years.

	2015	2014
Loans	\$815,314,249	\$797,097,462
Less current portion	109,036,923	97,420,500
	<u>\$706,277,326</u>	<u>\$699,676,962</u>

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

	Loans	Debentures payable
2016	\$109,036,923	\$109,028,549
2017	97,125,804	97,119,394
2018	90,770,589	90,752,720
2019	81,131,073	84,128,842
2020	<u>76,272,574</u>	<u>76,272,302</u>

3. Debentures:

The debenture debt outstanding at March 31, 2015 totaling \$815,280,085 (2014 - \$797,058,969) is in Canadian funds and are placed with the Province of Nova Scotia, with the exception of Series "AT", and the "FCM" loans which are private placements. Interest is payable semi-annually, except for Series "AT", which is payable annually.

At year-end, the total debentures due to the Province of Nova Scotia was \$808,129,329 (2014 - \$789,126,683).

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2015

3. Debentures (continued):

				2015
Series	Date issued	Maturity date Calendar Year	Interest rate	Amortized cost of debt outstanding
AP	Jan.30/98	2016 to 2019	6.000-6.125	\$ 13,435,345
AT*	May 28/99	2015	1.000	168,750
BA	Nov. 7/02	2015 to 2017	5.875-6.000	1,312,511
BB	Jan. 9/03	2015 to 2023	5.913	6,036,329
BC	May 28/03	2015 to 2018	5.625-5.750	3,341,454
BD	Oct. 15/03	2015 to 2018	5.125-5.375	2,828,430
BE	June 10/04	2015 to 2019	5.550-5.750	878,945
BF	Sept. 1/04	2015 to 2024	5.525-5.940	55,000,000
BG	Nov. 25/04	2015 to 2019	5.100-5.325	1,304,000
BH	June 1/05	2015 to 2020	4.560-4.880	16,059,000
BI	Nov. 22/05	2015 to 2020	4.515-4.830	20,156,000
BJ	June 1/06	2015 to 2021	4.825-5.080	14,949,000
BK	Oct. 24/06	2015 to 2021	4.340-4.590	25,611,000
FCM-A**	Oct. 31/06	2015 to 2016	2.550	166,160
FCM-B**	Mar. 5/07	2016 to 2017	2.620	64,770
BL	June 1/07	2015 to 2022	4.525-4.770	29,371,000
BM	Oct. 17/07	2015 to 2022	4.912-5.210	25,956,000
BN	Jul. 7/08	2015 to 2023	4.584-5.088	27,154,000
FCM-C**	Sept. 30/08	2015 to 2018	2.190	264,495
BP	Oct. 24/08	2015 to 2023	4.750-5.480	27,025,000
BQ	June 1/09	2015 to 2024	3.666-5.644	41,945,000
BR	Oct. 27/09	2015 to 2024	3.387-4.939	26,702,000
BS	June 29/10	2015 to 2025	3.430-4.875	39,671,000
BT	Nov. 9/10	2015 to 2025	2.570-4.410	37,423,000
BU	May 30/11	2015 to 2026	2.811-4.597	21,745,000
BV	Nov. 9/11	2015 to 2026	2.057-4.026	29,912,000
FCM-D**	Nov. 15/11	2015 to 2021	1.750	890,910
FCM-E**	Mar. 26/12	2016 to 2032	2.000	376,391
BW	May 15/12	2015 to 2027	2.165-3.856	35,588,000
FCM-F**	July 3/12	2015 to 2032	2.000	1,636,595
BX	July 6/12	2015 to 2022	1.785-3.156	28,800,000
FCM-G**	Aug. 22/12	2015 to 2032	2.000	3,600,000
BY	Nov. 9/12	2015 to 2027	1.820-3.580	49,968,000
BZ	May 15/13	2015 to 2028	1.435-3.489	68,299,000
CA	Nov. 15/13	2015 to 2028	1.463-4.114	42,013,000
CB	June 5/14	2015 to 2029	1.245-3.792	44,961,000
CC	Nov. 17/14	2015 to 2029	1.200-3.559	70,667,000
				\$ 815,280,085

All debt directly placed with the Province of Nova Scotia except:

* Placed with private investor

** Placed with Federation of Canadian Municipalities

Amounts repayable over the next five years are presented in note 2(b).

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2015

4. Employee obligations:

(a) Public Service Awards:

As at March 31, 2015, the Corporation has recorded a liability in the amount of \$80,477 (2014 - \$98,917) in respect of the provincial public service award for the employees of the Corporation.

(b) Employee pension plan:

Permanent employees of the Corporation participate in the Nova Scotia Public Service Superannuation Plan (the "Plan"), a contributory defined benefit pension plan administered by the Province, 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 8.4% to 10.9% of employee salary. Total employer contributions for 2015 were \$27,873 (2014 - \$28,412) and are recognized in administrative expenses in the financial statements.

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

5. Supplemental cash flow information:

(a) Cash and cash equivalents include:

	2015	2014
Cash	\$ 3,323,963	\$ 76,814
Short-term investments	3,985,000	6,607,400
	<u>\$ 7,308,963</u>	<u>\$ 6,684,214</u>

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2015

5. Supplemental cash flow information (continued):

(b) Change in non-cash working capital:

	2015	2014
Accrued interest receivable	\$ 149,748	\$ 2,341
Other receivables	(603)	311
Accounts payable	(11,144)	29,487
Accrued interest payable	(147,900)	(1,859)
Due to PNS	660,000	-
	<u>\$ 650,101</u>	<u>\$ 30,280</u>

(c) Supplemental cash flow information:

	2015	2014
Interest paid	\$ 31,055,727	\$ 31,811,798
Interest received	\$ 31,055,421	\$ 31,813,773

6. Financial instruments:

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. 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 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.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2015

6. Financial instruments (continued):

(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 municipalities an allowance for doubtful accounts is not required. It is management's opinion that the Corporation is not exposed to significant credit risk arising from financial instruments. The maximum exposure to credit risk is equal to the carrying amount of the loans.

During the year and at year-end, there are no loans which are past due or considered impaired.

(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 and short-term investments and interest earned on the loans 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 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.

The following table summarizes the contractual maturities for all financial liabilities as at March 31, 2015:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	March 31, 2015 total
Accounts payable	\$ 39,865	\$ -	\$ -	\$ -	\$ 39,865
Accrued interest payable	9,816,706	-	-	-	9,816,706
Employee obligations	28,721	41,377	10,379	-	80,477
Debentures (principal)	109,028,549	348,273,258	325,745,217	32,250,376	815,297,400
Debentures (interest)	29,771,664	83,716,934	38,033,107	2,621,566	154,143,271
	\$ 148,685,505	\$ 432,031,569	\$ 363,788,703	\$ 34,871,942	\$ 979,377,719

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2015

7. Short term loan due to PNS:

On November 14, 2014, the Corporation entered into a Line of Credit Agreement with the Province of Nova Scotia as represented by the Minister of Finance and Treasury Board. The Province has extended a revolving unsecured credit facility of \$50 million. The purpose of this line of credit is to provide short-term financing to municipalities for completed capital projects until long-term financing can be arranged. The current amount outstanding on the Line of Credit is \$660,000. The balance bears interest at the Canadian Bankers acceptance rate and will be paid off through the bi-annual debenture issuance.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Schedule of Administrative Expenses

Year ended March 31, 2015, with comparative information for 2014

	2015 Budget	2015 Actual	2014 Actual
Salaries and benefits	\$ 384,976	\$ 390,601	\$ 375,571
Travel	6,500	3,382	2,131
Equipment and maintenance	9,500	3,048	2,818
Printing	6,200	2,009	4,935
Postage	2,200	1,829	1,622
Telecommunications	4,400	4,701	4,090
Stationary and supplies	1,700	492	1,711
Professional services	34,300	34,250	32,875
Bank charges	5,100	5,203	5,160
Directors' fees and expenses	26,000	6,591	8,531
Audit Committee fees and expenses	5,200	1,391	1,455
Professional development	11,000	7,511	15,745
Dues and subscriptions	2,165	3,630	2,880
Insurance	750	750	750
Rent	37,500	35,899	34,108
Other	500	4,238	83
Communications	2,000	12,000	-
Website	4,000	500	-
Special projects	15,000	12,694	12,828
Sponsorship projects	14,500	13,498	16,064
Municipal client training initiatives	8,000	-	-
	\$ 581,491	\$ 544,217	\$ 523,357