

Financial Statements of

**NOVA SCOTIA MUNICIPAL  
FINANCE CORPORATION**

Year ended March 31, 2016

## 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, 2016, 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*

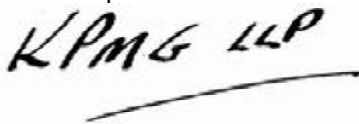
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable 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, 2016, 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.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the "K" and ends under the "P", with a small upward tick at the end.

Chartered Accountants  
June 10, 2016  
Halifax, Canada

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

## Financial Statements

Year ended March 31, 2016

### Financial Statements

Statement of Financial Position	1
Statement of Operations and Accumulated Surplus	2
Statement of Changes in Net Financial Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5
Schedule of Administrative Expenses	13

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

## Statement of Financial Position

March 31, 2016, with comparative information for 2015

	2016	2015
<b>Financial assets:</b>		
Cash and cash equivalents (note 5(a))	\$ 7,431,903	\$ 7,308,963
Accrued interest receivable	9,505,829	9,824,171
HST receivable	119	674
Accounts receivable	113	5,594
Loans (note 2)	818,925,540	815,314,249
	<u>835,863,504</u>	<u>832,453,651</u>
<b>Financial liabilities:</b>		
Accounts payable	59,176	39,865
Employee obligation (Note 4)	86,195	80,477
Accrued interest payable	9,500,866	9,816,706
Short-term loan due to Province of Nova Scotia (Note 7)	690,887	660,000
Debentures (note 3)	818,900,585	815,280,085
	<u>829,237,709</u>	<u>825,877,133</u>
Net financial assets	6,625,795	6,576,518
<b>Accumulated surplus</b>	<b>\$ 6,625,795</b>	<b>\$ 6,576,518</b>

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, 2016, with comparative information for 2015

	Budget 2016	Actual 2016	Actual 2015
Revenue:			
Interest on loans	30,707,117	\$ 29,875,213	\$ 30,916,294
Interest on short-term investments	88,855	55,609	73,575
Recovery of issue costs	404,000	352,122	364,971
Administration fee	480,000	450,562	462,513
	<u>31,679,972</u>	<u>30,733,506</u>	<u>31,817,353</u>
Expenses:			
Interest on debenture debt and short term loans	30,705,504	29,877,359	30,916,968
Debenture issue expenses	404,104	351,918	367,409
Administrative expenses (schedule)	572,150	454,952	544,217
	<u>31,681,758</u>	<u>30,684,229</u>	<u>31,828,594</u>
Annual operating surplus (deficit)	(1,786)	49,277	(11,241)
Accumulated surplus, beginning of year	6,576,518	6,576,518	6,587,759
Accumulated surplus, end of year	<u>\$ 6,574,732</u>	<u>\$ 6,625,795</u>	<u>\$ 6,576,518</u>

See accompanying notes to financial statements.

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

## Statement of Changes in Net Financial Assets

Year ended March 31, 2016, with comparative information for 2015

	Budget 2016	Actual 2016	Actual 2015
Annual operating surplus (deficit)	\$ (1,786)	\$ 49,277	\$ (11,241)
Increase in net financial assets	(1,786)	49,277	(11,241)
Net financial assets, beginning of year	6,576,518	6,576,518	6,587,759
Net financial assets, end of year	\$ 6,574,732	\$ 6,625,795	\$ 6,576,518

See accompanying notes to audited financial statements

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

## Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Annual operating surplus	\$ 49,277	\$ (11,241)
Item not involving cash:		
Amortization of fair value adjustment on loans	(7,685)	(9,142)
Amortization of fair value adjustment on debenture debt	7,685	9,142
Increase (decrease) in employee obligations	5,718	(18,440)
Change in non-cash operating working capital (note 5(b))	58,736	650,101
	113,731	620,420
Investing activities:		
Issuance of loans to units	(112,640,529)	(115,628,145)
Payments received on loans to units	109,036,923	97,420,500
	(3,603,606)	(18,207,645)
Financing activities:		
Proceeds of debentures	112,641,364	115,628,000
Principal payments on debenture	(109,028,549)	(97,416,026)
	3,612,815	18,211,974
Increase in cash and cash equivalents	122,940	624,749
Cash and cash equivalents, beginning of year	7,308,963	6,684,214
Cash and cash equivalents, end of year	\$ 7,431,903	\$ 7,308,963

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, 2016

---

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 objective 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, 2016

---

## 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, 2016

## 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 1.011% to 6.125%. Repayment terms are negotiated on specific loans and would normally not exceed twenty years.

	2016	2015
Loans	\$818,925,540	\$815,314,249
Less current portion	105,998,660	109,036,923
	\$712,926,880	\$706,277,326

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

	Loans	Debentures payable
2017	\$105,998,660	\$105,992,530
2018	99,643,445	99,624,856
2019	93,003,930	93,001,978
2020	85,145,431	85,145,438
2021	83,214,773	83,216,639

## 3. Debentures:

The debenture debt outstanding at March 31, 2016 totaling \$818,900,585 (2015 - \$815,280,085) is in Canadian funds and are placed with the Province of Nova Scotia, with the exception of the "FCM" loans which are private placements. Interest is payable semi-annually.

At year-end, the total debentures due to the Province of Nova Scotia was \$809,991,452 (2015 - \$808,129,329).

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

## 3. Debentures (continued):

Series	Date issued	Maturity date Calendar Year	Interest rate	2016
				Amortized cost of debt outstanding
AP	Jan.30/98	2017 to 2019	6.000-6.125	\$ 10,376,180
BA	Nov. 7/02	2016 to 2017	5.875-6.000	964,786
BB	Jan. 9/03	2016 to 2023	5.913	5,426,452
BC	May 28/03	2016 to 2018	5.625-5.750	2,964,382
BD	Oct. 15/03	2016 to 2018	5.250-5.375	2,429,049
BE	June 10/04	2016 to 2019	5.600-5.750	702,973
BF	Sept. 1/04	2016 to 2024	5.570-5.940	49,500,000
BG	Nov. 25/04	2016 to 2019	5.145-5.325	1,122,000
BH	June 1/05	2016 to 2020	4.635-4.880	9,282,000
BI	Nov. 22/05	2016 to 2020	4.580-4.830	14,490,000
BJ	June 1/06	2016 to 2021	4.880-5.080	10,568,000
BK	Oct. 24/06	2016 to 2021	4.410-4.590	22,131,000
FCM-A*	Oct. 31/06	2016	2.550	83,080
FCM-B*	Mar. 5/07	2017	2.620	32,385
BL	June 1/07	2016 to 2022	4.560-4.770	25,024,000
BM	Oct. 17/07	2016 to 2022	4.955-5.210	18,590,000
BN	Jul. 7/08	2016 to 2023	4.684-5.088	23,019,000
FCM-C*	Sept. 30/08	2016 to 2018	2.190	198,372
BP	Oct. 24/08	2016 to 2023	4.895-5.480	22,179,000
BQ	June 1/09	2016 to 2024	4.038-5.644	36,356,000
BR	Oct. 27/09	2016 to 2024	3.649-4.939	23,233,000
BS	June 29/10	2016 to 2025	3.730-4.875	35,255,000
BT	Nov. 9/10	2016 to 2025	2.875-4.410	29,765,000
BU	May 30/11	2016 to 2026	3.115-4.597	18,909,000
BV	Nov. 9/11	2016 to 2026	2.355-4.026	26,206,000
FCM-D*	Nov. 15/11	2016 to 2021	1.750	763,637
FCM-E*	Mar. 26/12	2017 to 2032	2.000	354,251
BW	May 15/12	2016 to 2027	2.355-3.856	29,577,000
FCM-F*	July 3/12	2016 to 2032	2.000	1,545,674
BX	July 6/12	2016 to 2022	2.003-3.156	27,200,000
FCM-G*	Aug. 22/12	2016 to 2032	2.000	3,400,000
BY	Nov. 9/12	2016 to 2027	2.040-3.580	46,212,000
BZ	May 15/13	2016 to 2028	1.610-3.489	62,789,000
CA	Nov. 15/13	2016 to 2028	1.743-4.114	39,155,000
CB	June 5/14	2016 to 2029	1.366-3.792	41,183,000
CC	Nov. 17/14	2016 to 2029	1.387-3.559	65,273,000
CD	June 1/15	2016 to 2030	1.011-3.205	41,227,000
FCM-H*	Oct. 30/15	2016 to 2025	1.750	2,541,364
CE	Nov. 20/15	2016 to 2030	1.040-3.449	68,873,000
				\$ 818,900,585

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

\* 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, 2016

---

## 4. Employee obligations:

### (a) Public Service Awards:

As at March 31, 2016, the Corporation has recorded a liability in the amount of \$86,195 (2015 - \$80,477) in respect of the provincial public service award for the employees of the Corporation.

On April 7, 2015, the Province announced that the public service award would be discontinued on a go-forward basis for excluded (non-union) employees accrued to August 11, 2015.

### (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 2016 were \$26,171 (2015 - \$27,873) 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:

	2016	2015
Cash	\$ 6,741,016	\$ 3,323,963
Short-term investments	690,887	3,985,000
	<u>\$ 7,431,903</u>	<u>\$ 7,308,963</u>

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

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

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

	2016	2015
Accrued interest receivable	\$ 318,342	\$ 149,748
Other receivables	6,036	(603)
Accounts payable	19,311	(11,144)
Accrued interest payable	(315,840)	(147,900)
Due to PNS	30,887	660,000
	<u>\$ 58,736</u>	<u>\$ 650,101</u>

### (c) Supplemental cash flow information:

	2016	2015
Interest paid	<u>\$ 30,185,514</u>	<u>\$ 31,055,727</u>
Interest received	<u>\$ 30,183,883</u>	<u>\$ 31,055,421</u>

## 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, 2016

## 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, 2016:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	March 31, 2016 total
Accounts payable	\$ 59,176	\$ -	\$ -	\$ -	\$ 59,176
Accrued interest payable	9,500,866	-	-	-	9,500,866
Employee obligations	28,721	42,000	15,474	-	86,195
Debentures (principal)	105,992,530	360,988,911	320,840,459	31,088,315	818,910,215
Debentures (interest)	28,453,443	79,374,500	32,984,450	2,775,634	143,588,027
	<b>\$ 144,034,736</b>	<b>\$ 440,405,411</b>	<b>\$ 353,840,383</b>	<b>\$ 33,863,949</b>	<b>\$ 972,144,479</b>

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

---

## **7. Short-term loan due to PNS:**

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 \$690,887 (2015 - \$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, 2016, with comparative information for 2015

	2016 Budget	2016 Actual	2015 Actual
Salaries and benefits	\$ 387,700	\$ 314,786	\$ 390,601
Travel	6,500	5,816	3,382
Equipment and maintenance	9,500	3,670	3,048
Printing	2,200	6,703	2,009
Postage	2,550	1,490	1,829
Telecommunications	4,250	2,292	4,701
Stationary and supplies	1,500	1,433	492
Professional services	35,700	35,700	34,250
Bank charges	5,400	5,497	5,203
Directors' fees and expenses	19,600	4,807	6,591
Audit Committee fees and expenses	3,400	1,367	1,391
Professional development	14,000	6,643	7,511
Dues and subscriptions	3,600	2,681	3,630
Insurance	750	785	750
Rent	37,500	34,790	35,899
Other	500	173	4,238
Communications	-	-	12,000
Website	-	-	500
Special projects	15,000	12,226	12,694
Sponsorship projects	14,500	14,093	13,498
Municipal client training initiatives	8,000	-	-
	<b>\$ 572,150</b>	<b>\$ 454,952</b>	<b>\$ 544,217</b>