

Financial statements of

# **Nova Scotia Jobs Fund**

March 31, 2017

# Nova Scotia Jobs Fund

March 31, 2017

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## Independent Auditor's Report

To the Minister of

Business, Province of Nova Scotia

We have audited the accompanying financial statements of Nova Scotia Jobs Fund, which comprise the statement of financial position as at March 31, 2017, and the statements of operations, changes in net financial assets, continuity of fund under the Nova Scotia Jobs Fund Act and continuity of fund under the Venture Corporations Act for the year then ended, and 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.

### Auditor's 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 the auditor's 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, the auditor considers 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 Jobs Fund as at March 31, 2017 and its financial performance and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.

A handwritten signature in cursive script that reads "Deloitte LLP".

Chartered Professional Accountants  
June 29, 2017

# Nova Scotia Jobs Fund

## Statement of financial position

as at March 31, 2017

(in thousands of dollars)

	2017	2016
	\$	\$
<b>Financial assets</b>		
Investments and development incentives:		
Loans (Note 3)	541,596	559,123
Development incentives	54,135	55,032
Loans - Venture Corporations Act (Note 4)	559	559
Royalty rights (Note 5)	1,310	1,317
Shares (Note 6)	35,452	36,178
	<b>633,052</b>	652,209
Provision for concessionary assistance (Note 7)	(87,699)	(62,390)
Provision for development incentives	(54,135)	(55,032)
Allowance for doubtful accounts (Notes 3, 4, 5 & 6)	(100,671)	(106,922)
	<b>(242,505)</b>	(224,344)
Net investments and development incentives	<b>390,547</b>	427,865
Assistance authorized but unadvanced:		
Loans	44,000	44,000
Development incentives	5,072	10,018
	<b>49,072</b>	54,018
Due from Consolidated Fund of the Province of Nova Scotia:		
Guarantees (Note 8)	61,600	61,600
Provisions for payment under guarantees	(1,266)	(250)
	<b>60,334</b>	61,350
Uncommitted balance of fund, due from Consolidated Fund of the Province of Nova Scotia	<b>122,916</b>	109,980
Net financial assets, being accumulated surplus	<b>622,869</b>	653,213
<b>Accumulated surplus - committed and uncommitted</b>		
Accumulated surplus is comprised of:		
Authorized, net of write offs:		
Nova Scotia Jobs Fund Act	862,232	873,399
Venture Corporations Act	4,408	4,408
	<b>866,640</b>	877,807
Provision for concessionary assistance, development incentives and possible losses on assistance (Note 9)	(243,771)	(224,594)
	<b>622,869</b>	653,213

Contingencies (Note 10)

On behalf of the Fund

# Nova Scotia Jobs Fund

## Statement of operations under the Nova Scotia Jobs Fund Act year ended March 31, 2017

(in thousands of dollars)

	2017	2016
	\$	\$
<b>Revenue</b>		
Interest	16,779	19,509
Guarantee fees	726	430
Gain on sale of shares	-	813
	<b>17,505</b>	<b>20,752</b>
<b>Expenditures</b>		
Loans written off and development incentives earned	11,167	10,720
Interest	-	(50)
	<b>11,167</b>	<b>10,670</b>
Operating surplus for the year	<b>6,338</b>	<b>10,082</b>

The accompanying notes to the financial statements are an integral part of this financial statement.

# Nova Scotia Jobs Fund

## Statement of changes in net financial assets year ended March 31, 2017

(in thousands of dollars)

	2017	2016
	\$	\$
Change in net financial assets:		
Increase in uncommitted balance of Fund	12,936	49,376
Cancellation of loans	(349)	(18,955)
Expiration of guarantees	-	(27,200)
Principal repayments reinvested in the Fund	(23,068)	(13,997)
Loans written off and development incentives earned	(11,167)	(10,720)
Change in provisions	(19,178)	(42,740)
Protective disbursement advances	184	-
Capitalized interest	9,777	11,538
Share repayments reinvested in the Fund	4	(1,272)
Guarantee payments	517	510
Decrease in net financial assets	(30,344)	(53,460)
Net financial assets, beginning of year	653,213	706,673
Net financial assets, end of year	622,869	653,213

The accompanying notes to the financial statements are an integral part of this financial statement.

# Nova Scotia Jobs Fund

## Statement of continuity of fund under the Nova Scotia Jobs Fund Act year ended March 31, 2017

(in thousands of dollars)

	2017	2016
	\$	\$
Fund balance, beginning of year	873,399	884,119
Operating surplus for the year	6,338	10,082
Interest	-	(50)
Revenue recorded in the Consolidated Fund	(17,505)	(20,752)
Net expenditures	862,232	873,399
Other activities within the Fund:		
Principal repayments reinvested in the Fund	23,068	13,997
Cancellation of loans	349	18,955
Expiration of guarantees	-	27,200
Share repayments reinvested in the Fund	(4)	1,272
Change in provision	(183)	-
Increase in uncommitted balance of the Fund	(12,936)	(49,376)
	10,294	12,048
Capitalized interest	(9,777)	(11,538)
Guarantee payments	(517)	(510)
	(10,294)	(12,048)
<b>Fund balance, end of year</b>	<b>862,232</b>	<b>873,399</b>

The accompanying notes to the financial statements are an integral part of this financial statement.



# Nova Scotia Jobs Fund

## Statement of continuity of fund under the Venture Corporations Act year ended March 31, 2017

(in thousands of dollars)

	2017	2016
	\$	\$
Fund balance, beginning of year	4,408	4,408
Fund balance, end of year	4,408	4,408
Comprising:		
Loans advanced	559	559
Uncommitted balance	3,849	3,849
	4,408	4,408

The accompanying notes to the financial statements are an integral part of this financial statement.

# Nova Scotia Jobs Fund

## Notes to the financial statements

March 31, 2017

(in thousands of dollars)

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### 1. Reporting entity

The Nova Scotia Jobs Fund Act (the "Act") was proclaimed in force by Order in Council 2011 - 440 and came into effect on December 21, 2011. It provided, in sub-section 3(1), that the former Industrial Expansion Fund continue as a special account in the office of the Deputy Minister of Finance as the Nova Scotia Jobs Fund (the "Fund"). Effectively, all assets of the Industrial Expansion Fund became part of the Nova Scotia Jobs Fund as it ceased to exist as a separate fund. The Fund has been used for the purposes set out in section 4 of the Act, and includes providing investment for the purpose of economic growth, attracting business or foreign direct investment, promoting international trade and commerce and sustaining or increasing employment. All investments from the Fund need approval of the Governor in Council. The Fund's account and management activities as well as the accounting function are wholly performed by Nova Scotia Business Incorporated ("NSBI"). On May 1, 2014, Nova Scotia Jobs Fund was closed to new investments or increases to existing statutory capital advances authority on present investments.

### 2. Significant accounting policies

#### *Basis of accounting*

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards ("PSAS") as established by the Public Sector Accounting Board ("PSAB"). These financial statements reflect the assets, liabilities, revenues, expenses and fund balances of the Fund. The more significant policies are described below.

The Fund follows the accrual method of accounting for revenue 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.

#### *Loans receivable*

Loans receivable are recognized at cost less allowances. An allowance is recorded when management considers it necessary to reduce the loan to its estimated recoverable amount. Loans receivable are classified as impaired when, in the opinion of management, there is reasonable doubt as to the timely collection of the full amount of the principal and interest.

#### *Royalty rights*

Royalty rights are valued at cost. The value of these rights is assessed annually by estimating the net present value of anticipated cash flows. If the carrying value of the right exceeds the net present value of future cash flows, the right is written down to the net present value.

#### *Shares*

Equity investments with limited information available are initially recorded at cost, which approximates fair value, and are reviewed annually for the possible impairment allowances. This allowance or the difference between valuation and cost amount reflects the risk associated with equity investments.

#### *Provision for concessionary assistance*

The Fund provides for the effect of the decrease in valuation of certain loans and shares due to assistance being provided with concessionary terms.

#### *Allowance for doubtful accounts*

The Fund provides for possible losses on guarantees, loans, shares and other assets on an item-by-item basis by examining such factors as client's financial condition and the fair value of the underlying security.

# Nova Scotia Jobs Fund

## Notes to the financial statements

March 31, 2017

(in thousands of dollars)

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### 2. Significant accounting policies (continued)

#### *Guarantees*

Guarantees, including utilized and unutilized portions, are recorded at cost.

#### *Revenues and administrative expenses*

Chapter 222 of the Revised Statutes of Nova Scotia contains the legislation relating to the Industrial Development Act. Clause 8, Administrative Expenses, states: The administration expenses of the Minister and of the Board shall be administration expenses of the Department of Economic and Rural Development and Tourism, now the Department of Business. The administrative expenses of the Fund are included in the accounts of the Department of Business upon consolidation with the accounts of Nova Scotia Business Incorporated, which was assigned to absorb them during the year. Accordingly, administrative expenses are not reflected in the financial statements of the Fund.

Interest revenue and guarantee fees earned by the Fund are recorded directly in the accounts of the Consolidated Fund of the Province of Nova Scotia.

#### *Government transfers*

Government transfers received and paid are to establish and assist in developing or expanding industries in the Province.

Government transfers are recognized in the financial statements in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

#### *Statement of cash flows*

A statement of cash flows is not provided since the Fund does not maintain a cash account and disclosures in the statements of financial position, statement of operations, statement of net financial assets, and statements of continuity of the funds adequately represent the changes in Fund balances.

#### *Statement of remeasurement gain and loss*

The Fund has not presented a statement of remeasurement gain and loss as the Fund has no financial instruments that give rise to remeasurement gains or losses.

#### *Use of estimates*

The preparation of financial statements in accordance with PSAS 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. Significant estimates included in the financial statements relate to the valuation of the financial assets and guarantees. Actual results could materially differ from those estimates.

#### *Budget*

The Fund has not presented a budget in its statement of operations as the Fund does not prepare an assessment of future operations.

# Nova Scotia Jobs Fund

## Notes to the financial statements

March 31, 2017

(in thousands of dollars)

### 3. Loans

	2017	2016
	\$	\$
Principal due		
Performing loans	501,003	513,947
Impaired loans	40,593	45,176
	<b>541,596</b>	559,123
Less: allowance for doubtful accounts	76,090	81,609
	<b>465,506</b>	477,514

Interest charged on these loans ranges from Nil% to 7% (2016 - Nil% to 9%). The level of security on loans is also negotiated between the Fund and the debtor. Security can range from an unsecured position to a fully secured position.

### 4. Venture Corporations Act

The Venture Corporations Act (the "Act") was assented to June 5, 1980 and came into force January 28, 1981. This Act was enacted to provide a means of encouraging investment in small businesses in Nova Scotia.

A company that qualifies as a venture corporation may receive loans under this Act. Loan proceeds must be used to purchase shares or grant unsecured loans to eligible small businesses. Principal repayments and accrual of interest are not required to commence until the tenth anniversary of such loans.

The Act directs that money provided shall be financial assistance within the meaning of the Industrial Development Act, and payments made pursuant to the Act shall be made out of the Industrial Expansion Fund.

No funds were advanced nor received on these loans during the year (2016 - \$Nil).

	2017	2016
	\$	\$
Loans made to venture corporation	559	559
Less: allowance for doubtful accounts	559	559
	-	-

### 5. Royalty rights

	2017	2016
	\$	\$
Royalty rights	1,310	1,317
Less: allowance for doubtful accounts	1,310	1,317
	-	-

# Nova Scotia Jobs Fund

## Notes to the financial statements

March 31, 2017

(in thousands of dollars)

### 5. Royalty rights (continued)

Certain investments of the Fund are royalty agreements that provide a return in the form of royalty payments. The royalty payments are based upon net sales of related companies.

### 6. Shares

	2017	2016
	\$	\$
Preferred shares	12,740	13,741
Common shares	22,712	22,437
	35,452	36,178
Less: allowance for doubtful accounts	22,712	23,437
	12,740	12,741

During the year, no common shares (2016 - 3,000) were redeemed. Certain preferred shares are eligible for concessionary assistance.

### 7. Provision for concessionary assistance

The provision for concessionary assistance is the difference between the net present value at period end of the anticipated future repayments to be received by the Fund and the amount of assistance advanced.

The terms of concessionary assistance through the Fund include low interest rates, extended repayment terms and forgiveness clauses. This assistance is recorded at cost and reduced by the provision for concessionary assistance. Any adjustments to or recovery of the net present value of this assistance in subsequent years is reflected in the provision for concessionary assistance. The assistance outstanding, provision for concessionary assistance and net book value related to each of loans, shares, and royalties is as follows:

	2017	2016		
	\$	\$		
	Assistance outstanding	Provision for concessionary assistance	Net book value	Net book value
Loans	146,875	83,399	63,476	86,961
Shares	9,741	4,300	5,441	5,441
	156,616	87,699	68,917	92,402

# Nova Scotia Jobs Fund

## Notes to the financial statements

March 31, 2017

(in thousands of dollars)

### 8. Guarantees

	2017	2016
	\$	\$
Guarantees - in effect and utilized	48,598	58,708
Guarantees - in effect but unutilized	13,002	2,892
	<b>61,600</b>	<b>61,600</b>

### 9. Provision for concessionary assistance, development incentives and possible losses on assistance

	2017	2016
	\$	\$
Opening balance	224,594	181,854
Add current year provision		
Doubtful accounts	24,990	29,986
Development incentives	5,354	23,474
	<b>254,938</b>	<b>235,314</b>
Less: accounts written off	11,167	10,720
	<b>243,771</b>	<b>224,594</b>

### 10. Contingencies

The Fund has entered into agreements, which provide for the funding of expenditures incurred by third parties in respect of environmental remediation of contaminated sites. Estimates of the amount of future costs, if any, under these agreements cannot be made with certainty and are not reflected in the financial statements. When amounts are determinable, they are recorded during the year and reflected in the statement of operations.

### 11. Financial instruments

#### *Fair value*

Fair value measurements are categorized using the fair value hierarchy that reflects the significance of inputs used in determining the fair values.

There are no financial instruments recorded at fair value.

#### *Associated risk*

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. The Fund's authorized net fund balance - committed and uncommitted is primarily exposed to credit, interest rate, market and liquidity risk.

# Nova Scotia Jobs Fund

## Notes to the financial statements

March 31, 2017

(in thousands of dollars)

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### 11. Financial instruments (continued)

#### *Financial risk factors*

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. The Nova Scotia Jobs Fund assets are primarily exposed to credit, market price, interest rate, and liquidity risk.

#### 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 Fund. To mitigate this risk, the Fund regularly monitors entities to which financial assistance has been provided. In addition to its regular monitoring procedures, at year-end, management performed an analysis on a number of accounts in order to assess the Fund's total exposure to credit and other risks. Factors such as the financial condition of the client were evaluated to determine how risk has changed since inception of the financial assistance or the last analysis. Changes in risk are reflected in the carrying value of the assistance via the provision for concessionary assistance, the allowance for doubtful accounts and the provision for payment under guarantees.

As at March 31, 2017, the Fund had a significant concentration in its investment portfolio with respect to its five largest investees. The concentration of investments advanced to the Fund's five largest investees was 85% (2016 - 73%) of the carrying value of the investment portfolio.

As at March 31, 2017, the Fund had a significant concentration in its investment portfolio with respect to the forestry and shipbuilding industries. The concentration of investments advanced to companies participating in timber-related industries was 26% (2016 - 26%). The concentration of the investments advanced to companies participating in the shipbuilding industry was 61% (2016 - 59%).

#### Market price risk

Market risk is the risk that the fair value or future cash flows of the Fund's financial instruments will fluctuate because of changes in market prices. Some of the Fund's financial instruments expose it to this risk, which comprises currency risk, interest rate risk and other price risk.

#### Interest rate risk

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

#### 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 income generated from the loans receivable and guarantee fees, principal repayments received on the loans receivable and other funding received from the Province of Nova Scotia. In the normal course of business the Fund enters into contracts that give rise to commitments for future payments which may also impact the Fund's liquidity.

### 12. Related party transactions

The Fund had the following transactions with related parties in addition to those disclosed elsewhere in these financial statements.

No shares were sold to related parties in current year. In 2016, ReNova Scotia Bioenergy Inc., purchased all the outstanding shares previously held by the Nova Scotia Jobs Fund valued at \$1,268.

NSBI pays certain expenses, including salaries and benefits, rent, travel, professional fees and miscellaneous office expenses, on behalf of the Fund with no charge to the Fund. These were previously paid by the Province of Nova Scotia until the Fund's administrative responsibilities were transferred to NSBI in 2016 fiscal year.

# Nova Scotia Jobs Fund

Notes to the financial statements

March 31, 2017

(in thousands of dollars)

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## 12. Related party transactions (continued)

The Fund enters into transactions with other government departments, agencies and corporations in the normal course of operations and on terms and conditions that would be similar to those of non-related parties.