
Financial statements of Nova Scotia Jobs Fund

March 31, 2018

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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, 2018, 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, 2018 and its financial performance and its cash flows for the year then ended, in accordance with Canadian public sector accounting standards.



Chartered Professional Accountants
July 12, 2018

Nova Scotia Jobs Fund

Statement of financial position

As at March 31, 2018

(In thousands of dollars)

	Notes	2018	2017
		\$	\$
Financial assets			
Investments and development incentives			
Loans	3	534,906	541,596
Development incentives		28,051	54,135
Loans - Venture Corporations Act	4	559	559
Royalty rights	5	1,310	1,310
Shares	6	35,452	35,452
		600,278	633,052
Provision for concessionary assistance	7	(112,340)	(87,699)
Provision for development incentives		(28,051)	(54,135)
Allowance for doubtful accounts	3,4,5 and 6	(102,646)	(100,671)
		(243,037)	(242,505)
Net investments and development incentives		357,241	390,547
Assistance authorized but unadvanced:			
Loans		44,000	44,000
Development incentives		3,341	5,072
		47,341	49,072
Due from Consolidated Fund of the Province of Nova Scotia			
Guarantees	8	61,600	61,600
Provisions for payment under guarantees		(7,005)	(1,266)
		54,595	60,334
Uncommitted balance of fund, due from Consolidated Fund of the Province of Nova Scotia		128,783	122,916
Net financial assets, being accumulated surplus		587,960	622,869
Contingencies			
10			
Accumulated surplus - committed and uncommitted			
Accumulated surplus is comprised of			
Authorized, net of write offs			
Nova Scotia Jobs Fund Act		833,595	862,232
Venture Corporations Act		4,408	4,408
		838,003	866,640
Provision for concessionary assistance, development incentives and possible losses on assistance	9	(250,043)	(243,771)
		587,960	622,869

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

On behalf of the Fund

Nova Scotia Jobs Fund

Statement of operations under the Nova Scotia Jobs Fund Act

Year ended March 31, 2018

(In thousands of dollars)

	2018	2017
	\$	\$
Revenue		
Interest	16,579	16,779
Guarantee fees	448	726
	17,027	17,505
Expenditures		
Loans written off and development incentives earned	28,637	11,167
Interest	(100)	—
	28,537	11,167
Operating (deficit) surplus for the year	(11,510)	6,338

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

Nova Scotia Jobs Fund

Statement of changes in net financial assets

Year ended March 31, 2018

(In thousands of dollars)

	2018	2017
	\$	\$
Change in net financial assets		
Increase in uncommitted balance of Fund	5,869	12,936
Cancellation of loans	—	(349)
Principal repayments reinvested in the Fund	(17,307)	(23,068)
Loans written off and development incentives earned	(28,637)	(11,167)
Change in provisions	(6,272)	(19,178)
Protective disbursement advances	61	184
Capitalized interest	9,766	9,777
Share repayments reinvested in the Fund	—	4
Guarantee payments	1,611	517
Decrease in net financial assets	(34,909)	(30,344)
Net financial assets, beginning of year	622,869	653,213
Net financial assets, end of year	587,960	622,869

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

Nova Scotia Jobs Fund

Statement of continuity of fund under the Nova Scotia Jobs Fund Act

Year ended March 31, 2018

(In thousands of dollars)

	2018	2017
	\$	\$
Fund balance, beginning of year	862,232	873,399
Operating (deficit) surplus for the year	(11,510)	6,338
Interest	(100)	—
Revenue recorded in the Consolidated Fund	(17,027)	(17,505)
Net expenditures	833,595	862,232
Other activities within the Fund		
Principal repayments reinvested in the Fund	17,307	23,068
Cancellation of loans	—	349
Share repayments reinvested in the Fund	—	(4)
Increase in uncommitted balance of the Fund	(5,869)	(12,936)
Other	(61)	(183)
	11,377	10,294
Capitalized interest	(9,766)	(9,777)
Guarantee payments	(1,611)	(517)
	(11,377)	(10,294)
Fund balance, end of year	833,595	862,232

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

Nova Scotia Jobs Fund

Statement of continuity of fund under the Venture Corporations Act

Year ended March 31, 2018

(In thousands of dollars)

	2018	2017
	\$	\$
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 are an integral part of the financial statements.

Nova Scotia Jobs Fund

Notes to the financial statements

March 31, 2018

(In thousands of dollars)

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.

Nova Scotia Jobs Fund
Notes to the financial statements

March 31, 2018
(In thousands of dollars)

2. Significant accounting policies (continued)

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.

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.

Nova Scotia Jobs Fund
Notes to the financial statements

March 31, 2018
(In thousands of dollars)

2. Significant accounting policies (continued)

Budget

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

3. Loans

	2018	2017
	\$	\$
Principal due		
Performing loans	489,619	501,003
Impaired loans	45,287	40,593
	534,906	541,596
Less: allowance for doubtful accounts	77,016	76,090
	457,890	465,506

Interest charged on these loans ranges from nil to 8.75% (nil to 7% in 2017). 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 (nil in 2017).

	2018	2017
	\$	\$
Loans made to venture corporation	559	559
Less: allowance for doubtful accounts	559	559
	—	—

Nova Scotia Jobs Fund
Notes to the financial statements

March 31, 2018

(In thousands of dollars)

5. Royalty rights

	2018	2017
	\$	\$
Royalty rights	1,310	1,310
Less: allowance for doubtful accounts	1,310	1,310
	—	—

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

	2018	2017
	\$	\$
Preferred shares	12,741	12,741
Common shares	22,711	22,711
	35,452	35,452
Less: allowance for doubtful accounts	23,761	22,711
	11,691	12,741

During the year, no common shares (nil in 2017) 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:

	2018		2017
	Assistance outstanding	Provision for concessionary assistance	Net book value
	\$	\$	\$
Loans	355,652	109,340	246,312
Shares	9,741	3,000	6,741
	365,393	112,340	253,053
			268,917

Nova Scotia Jobs Fund
Notes to the financial statements
 March 31, 2018
 (In thousands of dollars)

8. Guarantees

	2018	2017
	\$	\$
Guarantees - in effect and utilized	48,743	48,598
Guarantees - in effect but unutilized	12,857	13,002
	61,600	61,600

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

	2018	2017
	\$	\$
Opening balance	243,771	224,594
Add current year provision		
Doubtful accounts	32,428	24,990
Development incentives	2,481	5,354
	278,680	254,938
Less: accounts written off	28,637	11,167
	250,043	243,771

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.

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, 2018, 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 87% (85% in 2017) of the carrying value of the investment portfolio.

As at March 31, 2018, 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 24% (26% in 2017). The concentration of the investments advanced to companies participating in the shipbuilding industry was 64% (61% in 2017).

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.

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.