

Financial Statements of

**NOVA SCOTIA MUNICIPAL  
FINANCE CORPORATION**

Year ended March 31, 2018



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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, 2018, 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, 2018, 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.

*KPMG LLP*

Chartered Professional Accountants, Licensed Public Accountants  
June 29, 2018  
Halifax, Canada

# **NOVA SCOTIA MUNICIPAL FINANCE CORPORATION**

## **Financial Statements**

Year ended March 31, 2018

### **Financial Statements**

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

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

## Statement of Financial Position

March 31, 2018, with comparative information for 2017

	2018	2017
<b>Financial assets:</b>		
Cash and cash equivalents (note 5(a))	\$ 13,385,471	\$ 7,035,872
Accrued interest receivable	8,640,518	8,972,550
HST receivable	647	558
Accounts receivable	85	85
Loans (note 2)	774,879,967	797,415,572
	<u>796,906,688</u>	<u>813,424,637</u>
<b>Financial liabilities:</b>		
Accounts payable	47,015	50,581
Employee obligation (note 4)	86,347	86,195
Accrued interest payable	8,626,691	8,967,588
Short-term loan due to Province of Nova Scotia (note 7)	6,671,750	332,700
Debentures (note 3)	774,869,339	797,396,789
	<u>790,301,142</u>	<u>806,833,853</u>
Net financial assets	6,605,546	6,590,784
<b>Accumulated surplus</b>	<b>\$ 6,605,546</b>	<b>\$ 6,590,784</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, 2018, with comparative information for 2017

	Budget 2018	Actual 2018	Actual 2017
<b>Revenue:</b>			
Interest on loans	27,173,786	\$ 26,942,114	\$ 28,714,109
Interest on short-term investments	45,321	108,524	59,236
Recovery of issue costs	375,834	280,577	281,798
Administration fee	440,000	333,678	337,932
	<u>28,034,941</u>	<u>27,664,893</u>	<u>29,393,075</u>
<b>Expenses:</b>			
Interest on debenture debt and short-term loans	27,171,836	26,948,274	28,719,686
Debenture issue expenses	372,961	281,950	282,917
Administrative expenses (schedule)	462,978	419,907	425,483
	<u>28,007,775</u>	<u>27,650,131</u>	<u>29,428,086</u>
Annual operating surplus (deficit)	27,166	14,762	(35,011)
Accumulated surplus, beginning of year	6,590,784	6,590,784	6,625,795
Accumulated surplus, end of year	<u>\$ 6,617,950</u>	<u>\$ 6,605,546</u>	<u>\$ 6,590,784</u>

See accompanying notes to financial statements.

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

## Statement of Changes in Net Financial Assets

Year ended March 31, 2018, with comparative information for 2017

	Budget 2018	Actual 2018	Actual 2017
Annual operating surplus (deficit)	\$ 27,166	\$ 14,762	\$ (35,011)
Increase (decrease) in net financial assets	27,166	14,762	(35,011)
Net financial assets, beginning of year	6,590,784	6,590,784	6,625,795
Net financial assets, end of year	\$ 6,617,950	\$ 6,605,546	\$ 6,590,784

See accompanying notes to audited financial statements

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

## Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
<b>Cash provided by (used in):</b>		
<b>Operating activities:</b>		
Annual operating surplus (deficit)	\$ 14,762	\$ (35,011)
Item not involving cash:		
Amortization of fair value adjustment on loans	(3,406)	(5,734)
Amortization of fair value adjustment on debenture debt	3,406	5,734
Increase in employee obligations	152	-
Change in non-cash operating working capital (note 5(b))	(12,520)	(9,005)
	<u>2,394</u>	<u>(44,016)</u>
<b>Investing activities:</b>		
Issuance of loans to units	(83,419,431)	(84,482,958)
Payments received on loans to units	105,958,442	105,998,660
	<u>22,539,011</u>	<u>21,515,702</u>
<b>Financing activities:</b>		
Proceeds of debentures	83,420,000	84,483,000
Principal payments on debenture	(105,950,856)	(105,992,530)
Change in short-term loan due to Province of Nova Scotia	6,339,050	(358,187)
	<u>(16,191,806)</u>	<u>(21,867,717)</u>
Increase (decrease) in cash and cash equivalents	6,349,599	(396,031)
Cash and cash equivalents, beginning of year	7,035,872	7,431,903
Cash and cash equivalents, end of year	<u>\$ 13,385,471</u>	<u>\$ 7,035,872</u>

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, 2018

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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 less valuation allowances and writeoffs. Periodically loans are assessed for collectibility and risk of loss. To the extent required, a valuation allowance based on past events, current circumstance and all available information at the date of the preparation of the financial statements is recorded to reduce the loans to their expected net realizable value. Losses as a result of a valuation allowance are recorded in the statement of operations.

#### (d) Employee future benefits:

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



# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

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## 1. Significant accounting policies (continued):

### 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.

### 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, 2018

## 1. Significant accounting policies (continued):

### (i) Accounting changes:

On April 1, 2017, the Corporation adopted Canadian public sector accounting standards PS 2200 Related party disclosures, PS 3420 Inter-entity transactions, PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual rights.

The adoption of these standards did not result in an accounting policy change for the entity, and did not result in any adjustments to the financial statements as at April 1, 2017 other than required disclosures for related party transactions.

## 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 1.200% to 6.125%. Repayment terms are negotiated on specific loans and would normally not exceed twenty years.

	2018	2017
Loans	\$774,879,967	\$797,415,572
Less amounts due within 12 months	105,332,093	105,958,442
<b>Remaining balance</b>	<b>\$669,547,874</b>	<b>\$691,457,130</b>

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

	Loans	Debentures payable
2019	\$105,332,093	\$105,351,978
2020	97,494,619	97,510,438
2021	95,587,591	95,603,639
2022	80,632,515	80,642,612
2023	108,740,264	108,750,252

## 3. Debentures:

The debenture debt outstanding at March 31, 2018 totaling \$774,869,339 (2017 - \$797,396,789) 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 \$767,587,716 (2017 - \$789,357,980).

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

### 3. Debentures (continued):

Series	Date issued	Maturity date Calendar Year	Interest rate	2018
				Amortized cost of debt outstanding
AP	Jan. 30/98	2019	6.125	\$ 3,670,744
BB	Jan. 9/03	2018 to 2023	5.913	4,094,716
BC	May 28/03	2018	5.750	2,185,885
BD	Oct. 15/03	2018	5.375	1,629,883
BE	June 10/04	2018 to 2019	5.700-5.750	350,999
BF	Sept 1/04	2018 to 2024	5.670-5.940	38,500,000
BG	Nov. 25/04	2018 to 2019	5.265-5.325	797,000
BH	June 1/05	2018 to 2020	4.760-4.880	7,834,000
BI	Nov 22/05	2018 to 2020	4.715-4.830	11,561,000
BJ	June 1/06	2018 to 2021	4.960-5.080	2,494,000
BK	Oct. 24/06	2018 to 2021	4.510-4.590	16,853,000
BL	June 1/07	2018 to 2022	4.670-4.770	15,672,000
BM	Oct. 17/07	2018 to 2022	5.060-5.210	3,158,000
BN	July 7/08	2018 to 2023	4.884-5.088	14,745,000
FCM-C*	Sept. 30/08	2018	2.190	66,126
BP	Oct. 24/08	2018 to 2023	5.095-5.480	12,484,000
BQ	June 1/09	2018 to 2024	4.667-5.644	25,167,000
BR	Oct. 27/09	2018 to 2024	4.124-4.939	16,244,000
BS	June 29/10	2018 to 2025	4.175-4.875	27,305,000
BT	Nov. 9/10	2018 to 2025	3.460-4.410	18,538,000
BU	May 30/11	2018 to 2026	3.635-4.597	13,553,000
BV	Nov. 9/11	2018 to 2026	2.985-4.026	18,825,000
FCM-D*	Nov 15/11	2018 to 2021	1.750	509,091
FCM-E*	Mar. 26/12	2019 to 2032	2.000	309,971
BW	May 15/12	2018 to 2027	2.792-3.856	22,849,000
FCM-F*	July 3/12	2018 to 2032	2.000	1,363,832
BX	July 6/12	2018 to 2022	2.443-3.156	24,000,000
FCM-G*	Aug 22/12	2018 to 2032	2.000	3,000,000
BY	Nov. 9/12	2018 to 2027	2.450-3.580	37,341,000
BZ	May 15/13	2018 to 2028	2.054-3.489	51,756,000
CA	Nov. 15/13	2018 to 2028	2.460-4.114	33,428,000
CB	June 5/14	2018 to 2029	1.923-3.792	33,627,000
CC	Nov. 17/14	2018 to 2029	1.970-3.559	54,484,000
CD	June 1/15	2018 to 2030	1.342-3.205	33,044,000
FCM-H*	Oct 30.15	2018 to 2025	1.750	2,033,092
CE	Nov. 20/15	2018 to 2030	1.394-3.449	59,819,000
CF	May 16/16	2018 to 2031	1.441-3.475	59,813,000
CG	Nov. 15/16	2018 to 2031	1.250-3.108	18,344,000
CH	May 9/17	2018 to 2032	1.200-3.209	35,123,000
CI	Nov. 9/17	2018 to 2032	1.734-3.382	48,297,000
				\$ 774,869,339

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, 2018

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## 4. Employee obligations:

### (a) Public Service Awards:

As at March 31, 2018, the Corporation has recorded a liability in the amount of \$86,347 (2017 - \$86,195) in respect of the provincial public service award (PSA) for the employees of the Corporation.

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

On January 19, 2018, the Province announced that there would be a one-time Service Payout initiative concerning the PSA. Provincial employees can take their accrued PSA now, versus waiting until retirement. Those employees who do not take their PSA until they retire, would continue to accrue PSA. The PSA is calculated as "service time x salary at retirement date". Service time is frozen as of April 1, 2015, but salary at retirement date is used in the PSA calculation upon retirement.

### (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 2018 were \$23,943 (2017 - \$23,605) and are recognized in administrative expenses in the financial statements.

Actuarial valuations of the Province of Nova Scotia's Plan, of which the Corporation's employees are members, are conducted annually, and provide an estimate of the accrued pension obligation (Plan liabilities) calculated using various economic and demographic assumptions, based on membership data as at the valuation date. The Province of Nova Scotia's consulting actuaries, Mercer, performed a valuation as at December 31, 2016 and issued their report in June 2017. The report indicated that the Province of Nova Scotia's Plan had a funding excess of \$160,833,000 (December 31, 2015 – funding excess of \$44,869,000).

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

## 5. Supplemental cash flow information:

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

	2018	2017
Cash	\$ 6,713,721	\$ 6,703,172
Short-term investments	6,671,750	332,700
	<u>\$ 13,385,471</u>	<u>\$ 7,035,872</u>

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

	2018	2017
Accrued interest receivable	\$ 332,032	\$ 533,279
Other receivables	(89)	(411)
Accounts payable	(3,566)	(8,595)
Accrued interest payable	(340,897)	(533,278)
	<u>\$ (12,520)</u>	<u>\$ (9,005)</u>

### (c) Supplemental cash flow information:

	2018	2017
Interest paid	\$ 27,285,765	\$ 29,247,229
Interest received	\$ 27,287,241	\$ 29,241,419

## 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.

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

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## 6. Financial instruments (continued):

### (i) Interest rate risk

Interest rate risk is the risk that future earnings or 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. Also, interest rates are fixed for longer term loans and borrowings reducing the fluctuation in future cash flows and earnings. As a result, 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 municipalities an allowance for doubtful accounts is not required. Cash deposits are held with tier one Canadian financial institutions to reduce the credit risk. 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 and cash and cash equivalents.

During the year and at year-end, there are no loans which are past due or considered impaired and therefore no allowance for loan losses.

### (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, 2018:

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2018

## 6. Financial instruments (continued):

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	March 31, 2018 total
Accounts payable	\$ 47,015	\$ -	\$ -	\$ -	47,015
Accrued interest payable	8,626,691	-	-	-	8,626,691
Employee obligations	16,438	26,371	43,538	-	86,347
Short-term loan	6,671,750	-	-	-	6,671,750
Debentures (principal)	105,351,978	382,506,941	237,326,717	49,684,193	774,869,829
Debentures (interest)	25,332,319	68,049,434	24,258,773	4,370,848	122,011,374
	\$ 146,046,191	\$ 450,582,746	\$ 261,629,028	\$ 54,055,041	\$ 912,313,006

## 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 \$6,671,750 (2017 - \$332,700). The balance bears interest at the Canadian Bankers acceptance rate (2018 - 1.54% to 1.66%; 2017 - 0.96%) and will be paid off through the bi-annual debenture issuance.

## 8. Related party transactions:

The Corporation is related to the Province of Nova Scotia as it was created by the Municipal Finance Corporation Act of Nova Scotia and is primarily financed by debentures from the Province of Nova Scotia (note 3). The amount of interest charged in debentures is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

## Schedule of Administrative Expenses

Year ended March 31, 2018, with comparative information for 2017

	2018 Budget	2018 Actual	2017 Actual
Salaries and benefits	\$ 307,293	\$ 299,194	\$ 295,591
Travel	5,000	1,822	1,450
Equipment and maintenance	8,900	3,192	2,941
Printing	4,500	4,598	4,995
Postage	2,400	1,198	1,582
Telecommunications	2,600	1,623	1,688
Stationary and supplies	1,000	314	360
Professional services	36,700	33,600	34,075
Bank charges	-	1,094	5,413
Directors' fees and expenses	11,500	5,974	5,577
Audit Committee fees and expenses	2,200	803	937
Professional development	10,500	5,378	4,184
Dues and subscriptions	3,350	3,251	4,893
Insurance	785	875	834
Rent	39,050	36,219	35,498
Other	500	89	46
Advertising	2,200	1,755	1,995
Special projects	4,000	2,893	1,924
Sponsorship projects	14,500	13,535	16,500
Municipal client training initiatives	6,000	2,500	5,000
	\$ 462,978	\$ 419,907	\$ 425,483