

Financial Statements of

**NOVA SCOTIA MUNICIPAL
FINANCE CORPORATION**

And Independent Auditor's Report thereon

8-month period ended December 1, 2022



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INDEPENDENT AUDITOR'S REPORT

To the Minister of Finance and Treasury Board

Opinion

We have audited the financial statements of Nova Scotia Municipal Finance Corporation (the Corporation), which comprise:

- the statement of financial position as at end of December 1, 2022
- the statement of operations and accumulated surplus for the period then ended
- the statement of changes in net assets for the period then ended
- the statement of cash flows for the period then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at end of December 1, 2022, and its results of operations, its changes in net assets and its cash flows for the period then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our auditor's report.

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants
Halifax, Canada
June 30, 2023

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Financial Statements

8-month period ended December 1, 2022

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	14

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Financial Position

December 1, 2022, with comparative information for March 31, 2022

	December 1, 2022	March 31, 2022
Financial assets:		
Cash and cash equivalents (note 6(a))	\$	\$ 7,356,861
Accrued interest receivable	-	7,274,223
HST receivable	-	1,203
Accounts receivable	-	-
Municipal operating loans receivable	-	31,691,796
Loans (note 3)	-	757,484,549
	-	803,808,632
Financial liabilities:		
Accounts payable	-	39,982
Employee obligation (note 5)	-	46,649
Accrued interest payable	-	7,265,251
Short-term loan due to Province of Nova Scotia	-	356,179
Municipal operating loans payable	-	31,691,796
Deposits	-	20,253
Debentures (note 4)	-	757,322,262
	-	796,742,372
Net financial assets	-	7,066,260
Accumulated surplus	\$	\$ 7,066,260

See accompanying notes to audited financial statements.

On behalf of:



Deputy Minister



Associate Deputy Minister

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Operations and Accumulated Surplus

For the 8-month period ended December 1, 2022, with comparative information for the year ended March 31, 2022

	Budget Mar 2023	Actual Dec 2022	Actual Mar 2022
Revenue:			
Interest on loans	\$ 19,885,406	\$ 15,069,510	\$ 22,310,484
Interest on short-term investments	58,919	139,352	63,728
Recovery of issue costs	341,666	415,831	448,807
Administration fee	400,000	553,510	616,393
	20,685,991	16,178,203	23,439,412
Expenses:			
Interest on debenture debt and short-term loans	19,878,721	15,065,326	22,305,588
Debenture issue expenses	341,699	414,517	449,095
Administrative expenses (schedule)	436,308	267,597	384,038
	20,656,728	15,747,440	23,138,721
Annual operating surplus	29,263	430,763	300,691
Accumulated surplus, beginning of year	7,066,260	7,066,260	6,765,569
Distribution of net assets to Province of Nova Scotia	–	(7,497,023)	–
Accumulated surplus, end of year	\$ 7,095,523	\$ –	\$ 7,066,260

See accompanying notes to financial statements.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Changes in Net Financial Assets

For the 8-month period ended December 1, 2022, with comparative information for the year ended March 31, 2022

	Budget Mar 2023	Actual Dec 2022	Actual Mar 2022
Annual operating surplus	\$ 29,263	\$ 430,763	\$ 300,691
Less: One time distribution to PNS (Note 1)	–	(7,497,023)	–
Increase (decrease) in net financial assets	29,263	(7,066,260)	300,691
Net financial assets, beginning of year	7,066,260	7,066,260	6,765,569
Net financial assets, end of year	\$ 7,095,523	\$ –	\$ 7,066,260

See accompanying notes to audited financial statements

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Cash Flows

For the 8-month period ended December 1, 2022, with comparative information for the year ended March 31, 2022

	Dec 2022	Mar 2022
Cash provided by (used in):		
Operating activities:		
Annual operating surplus	\$ 430,763	\$ 300,691
Item not involving cash:		
Increase (decrease) in accrued public service award	931	-
Change in non-cash operating working capital (note 6(b))	(30,454)	(17,388)
	401,240	283,303
Investing activities:		
Issue of municipal operating loans to municipalities	-	-
Issuance of loans to units	(138,377,470)	(154,098,202)
Payments received on loans to units	141,641,963	100,095,112
Due to municipal unit	(488)	(675)
	3,264,005	(54,003,765)
Financing activities:		
Proceeds of debentures	138,377,350	154,098,100
Principal payments on debenture	(141,684,905)	(100,146,612)
Change in short-term loan due to Province of Nova Scotia	(356,179)	(772,766)
Distribution of cash to PNS	(7,358,372)	-
	(11,022,106)	53,178,722
Change in cash and cash equivalents	(7,356,861)	(541,740)
Cash and cash equivalents, beginning of year	7,356,861	7,898,601
Cash and cash equivalents, end of year	\$ -	\$ 7,356,861

Supplemental cash flow information (note 5 (c))

See accompanying notes to audited financial statements.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements

For the 8-month period ended December 1, 2022

1. Nature of operations and dissolution:

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.

Effective December 1, 2022, the Corporation was dissolved in accordance with the Municipal Finance Corporation Dissolution Act. As a result of this dissolution, effective December 1, 2022, the Board established by the Corporation was dissolved and all appointments of persons as members of the Board have been revoked. All contracts, agreements, orders and by-laws relating to the remuneration, allowances or expenses to be paid to the members of the Board are null and void. By-laws made by the Board under the Municipal Finance Corporation Act are revoked.

Effective December 1, 2022, all property of the Corporation, both real and personal, all assets of the Corporation and all interests or rights of the Corporation in or to any property are transferred and assigned to and vested in the Province of Nova Scotia. Likewise, all liabilities, contracts, obligations, debts, causes of action, actions, appeals, applications or other proceedings of the Corporation or in the name of the Corporation are transferred to and assumed by the Province of Nova Scotia.

Effective December 1, 2022, a reference to the Municipal Finance Corporation in any Act, other than the Municipal Finance Corporation Dissolution Act, regulation, rule, order, by-law, agreement or other instrument or document must be read as, unless the context otherwise requires, the Department of Finance and Treasury Board.

2. 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.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

For the 8-month period ended December 1, 2022

2. Significant accounting policies (continued):

(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 generally three months or less and short-term loans. Cash and cash equivalents are recorded at amortized cost. As at the period-ended December 1, 2022, all cash and cash equivalents of the Corporation have been transferred to and assumed by the Province of Nova Scotia.

(c) Loans:

Loans are recorded at amortized cost less valuation allowances and write-offs. Periodically loans are assessed for collectability 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. As at the period-ended December 1, 2022, all loans of the Corporation have been transferred to and assumed by the Province of Nova Scotia.

(d) Employee future benefits:

The Corporation provides certain employee benefits which will require funding in future periods. As at the period-ended December 1, 2022, all obligations relating to future employee benefits of the Corporation have been transferred to and assumed by the Province of Nova Scotia.

Public service awards:

Upon retirement, certain 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 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.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

For the 8-month period ended December 1, 2022

2. Significant accounting policies (continued):

(e) Debentures:

Debentures are recorded at amortized cost. As at the period-ended December 1, 2022, all debentures of the Corporation have been transferred to and assumed by the Province of Nova Scotia.

(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. As at the period-ended December 1, 2022, the accumulated surplus of the Corporation has been transferred to and assumed by the Province of Nova Scotia.

(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)

For the 8-month period ended December 1, 2022

3. Loans:

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 0.400% to 5.940%. Repayment terms are negotiated on specific loans and would normally not exceed twenty years.

	Dec 2022	Mar 2022
Loans to municipalities	\$ -	\$757,484,549
Less current portion	-	142,411,911
	\$ -	\$615,072,638

4. Debentures:

The debenture debt outstanding at December 1, 2022 totaling \$nil (Mar 2022 - \$757,322,262) 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 period-end, the total debentures due to the Province of Nova Scotia was \$nil (Mar 2022 - \$749,170,055).

5. Employee obligations:

(a) Public Service Awards:

As at December 1, 2022, the Corporation has recorded a liability in the amount of \$nil (Mar 2022 - \$46,649) 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.

(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 the 8-month period ending December 1, 2022 were \$17,656 (Mar 2022 - \$25,100) and are recognized in administrative expenses in the financial statements.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

For the 8-month period ended December 1, 2022

6. Supplemental cash flow information:

(a) Cash and cash equivalents include:

	Dec 2022	Mar 2022
Cash	\$ –	\$ 7,000,682
Short-term investments	–	356,179
	\$ –	\$ 7,356,861

(b) Change in non-cash working capital:

	Dec 2022	Mar 2022
Accrued interest receivable	\$ 4,934,698	\$ 278,436
Other receivables	775	(537)
Accounts payable	(13,643)	(15,427)
Accrued interest payable	(4,952,284)	(279,860)
	\$ (30,454)	\$ (17,388)

(c) Supplemental cash flow information:

	Dec 2022	Mar 2022
Interest paid	\$ 20,017,612	\$ 22,585,448
Interest received	\$ 20,143,560	\$ 22,589,332

7. 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)

For the 8-month period ended December 1, 2022

7. 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 period and at period-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.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

For the 8-month period ended December 1, 2022

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. 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

For the 8-month period ended December 1, 2022, with comparative information for the year-ended March 31, 2022

	Mar 2023 Budget	Dec 2022 Actual	Mar 2022 Actual
Salaries and benefits	\$ 326,763	\$ 216,660	\$ 319,289
Travel	5,000	91	368
Equipment and maintenance	4,100	2,250	5,049
Postage	1,850	608	1,158
Telecommunications	1,850	1,023	1,645
Stationary and supplies	400	–	60
Professional services	35,330	29,467	34,600
Bank charges	180	(13)	30
Directors' fees and expenses	9,200	1,661	1,766
Audit Committee fees and expenses	3,400	100	500
Professional development	12,900	739	1,130
Dues and subscriptions	3,300	739	2,974
Insurance	1,070	1,192	1,021
Other	500	31	78
Advertising	9,265	964	1,755
Special projects	14,000	11,500	769
Sponsorship projects	5,000	–	6,846
Municipal client training initiatives	2,200	585	5,000
	\$ 436,308	\$ 267,597	\$ 384,038