

Consolidated Financial Statements of

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

March 31, 2007

Independent Auditors' Report

To the Members of the Legislative Assembly: and
To the Minister of Community Services

We have audited the consolidated balance sheet of the Nova Scotia Housing Development Corporation as at March 31, 2007 and the consolidated statement of revenues and expenses for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Nova Scotia Housing Development Corporation as at March 31, 2007 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Halifax, Nova Scotia
June 27, 2007

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Table of Contents

March 31, 2007

	<u>Page</u>
Consolidated Balance Sheet	1
Consolidated Statement of Revenues and Expenses	2
Notes to the Financial Statements	3-10

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Consolidated Balance Sheet

March 31, 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Current		
Cash, accounts receivable and accrued interest	\$ 15,043,979	\$ 13,485,010
Current portion of mortgages receivable (Note 7)	3,063,694	3,152,295
	<u>18,107,673</u>	<u>16,637,305</u>
Mortgages receivable (Note 7)	60,633,326	54,556,630
Investment in land and social housing (Note 8)	329,804,648	341,345,829
Fund for future social housing expenditures (Note 4)	43,647,186	33,447,936
	<u>\$ 452,192,833</u>	<u>\$ 445,987,700</u>

LIABILITIES

Current		
Accounts payable and accrued liabilities	\$ 15,709,909	\$ 15,408,697
Current portion of long-term debt (Note 9)	12,833,727	12,058,257
Deferred federal contributions (Note 4)	43,647,186	33,447,936
	<u>72,190,822</u>	<u>60,914,890</u>
Long-term debt (Note 9)	299,822,660	306,938,089
Reserve for mortgage guarantees, indemnified loans and interest fluctuations (Note 10)	18,128,981	17,585,060
Partners' equity and minority interest (Note 12)	2,345,754	2,580,522
Housing Development Corporation Fund (Note 6)	59,704,616	57,969,139
	<u>\$ 452,192,833</u>	<u>\$ 445,987,700</u>

Commitments and contingencies (Note 10)

.....Deputy Minister of Community Services

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Consolidated Statement of Revenues and Expenses

Year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
Revenue		
Rental revenue	\$ 51,259,676	\$ 50,645,514
Interest revenue	3,337,511	2,898,055
Land sales	638,616	1,330,780
Recoveries from Canada Mortgage and Housing Corporation (Notes 2 and 4)	55,148,346	61,788,081
Recoveries from provincial government departments and municipalities (Note 5)	45,503,381	45,817,730
	<u>155,887,530</u>	<u>162,480,160</u>
Expenses		
Administration fee (Note 3)	3,337,466	2,221,527
Amortization of investment in social housing	10,594,058	13,086,899
Cost of land sales	301,785	424,676
Operating costs, Housing Authorities (Note 13)	75,612,910	70,783,928
Interest on long-term debt	27,855,204	27,440,241
Housing Renovation and Affordable Housing	19,877,227	15,088,957
Transfer to Housing Services	17,749,438	29,341,230
Increase in provision for doubtful accounts, recoveries and reserves	559,442	4,092,702
	<u>155,887,530</u>	<u>162,480,160</u>
Excess of revenues over expenses	\$ -	\$ -

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Notes to the Consolidated Financial Statements

March 31, 2007

1. STATUS OF THE CORPORATION

The Nova Scotia Housing Development Corporation is a crown corporation established by the Nova Scotia Housing Development Corporation Act.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Nova Scotia Housing Development Corporation and the seven Housing Authorities which are controlled by the Corporation including all program recoveries and expenses administered under the Social Housing Agreement, the Housing Renovation Agreement and the Affordable Housing Agreement.

Transactions and account balances between the Corporation and the Housing Authorities have been eliminated in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The policies used in preparing the Corporation's consolidated financial statements are in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Statement of cash flows

Except for funds held by the Regional Housing Authorities, the Housing Development Corporation holds no cash. All disbursements are drawn from the Province and all receipts are deposited to accounts of the Province. A Statement of Cash Flows has not been provided as it would not provide meaningful additional information.

Mortgages receivable

Mortgages receivable are carried net of provisions for concessionary assistance and doubtful recoveries as described in Note 7 to the financial statements.

A provision for doubtful recoveries is established to the extent that anticipated losses on bad debts exceed reserves. The Housing Development Corporation charges mortgage insurance fees to borrowers to offset the cost of bad debt write offs from the mortgages receivable portfolio. These insurance fees are retained as reserves and are charged with the losses on bad debts when realized.

The provision for concessionary assistance represents the present value of estimated future subsidies provided by the Housing Services Division of the Department of Community Services to low income borrowers to assist them in meeting their monthly mortgage payments to the Corporation.

Investment in Land and Social Housing

Investments in Social Housing represent housing properties which are carried at cost including the cost of site investigation, land, construction, administration and interest during construction less accumulated amortization.

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Notes to the Consolidated Financial Statements

March 31, 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

In accordance with amendments to Section 1150 of the CICA Public Sector Accounting Handbook, effective April 1, 2005 the corporation changed the amortization method for buildings from the sinking fund method to straight-line over the collective estimated remaining useful life of the properties. The change in accounting policy was applied prospectively.

Investments in land represent properties developed for resale. Land projects are carried at the lower of cost or estimated net realizable value. Land costs include acquisition and servicing costs, capitalized interest charges and administrative costs where applicable.

The Corporation has established reserves for risks associated with the reduction in the value of land developments.

Recoveries from CMHC

	<u>2007</u>	<u>2006</u>
Social Housing	\$ 45,785,952	\$ 50,120,158
Housing Renovation and Affordable Housing	9,362,394	11,667,923
	<u>\$ 55,148,346</u>	<u>\$ 61,788,081</u>

Social Housing

Pursuant to the Social Housing Agreement executed by the Corporation and the Canada Mortgage and Housing Corporation (CMHC) which took effect October 1, 1997, CMHC is required to pay fixed annual contributions to the Corporation over the remainder of the CMHC commitment period ending June 30, 2034. Contributions from CMHC are used by both the Corporation and the Housing Services Division of the Department of Community Services to meet the interest, amortization, subsidy and administration expenses of programs under the Agreement.

Housing Renovations and Affordable Housing

Pursuant to the Home Renovation and Affordable Housing Agreements executed by the Corporation and CMHC, contributions made by CMHC are used by the Corporation to meet expenses of these programs.

Forgivable Loans

The Corporation has chosen to account for all forgivable loans as mortgages receivable net of an equivalent amount of reserves.

Use of Accounting 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 reporting periods significant estimates. Actual results could differ from those estimates.

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Notes to the Consolidated Financial Statements

March 31, 2007

3. ADMINISTRATION FEE

The administration of the Nova Scotia Housing Development Corporation is carried out by the staff of the Department of Community Services. The Corporation reimburses the Housing Services Division of the Department to the extent that revenues earned by the Corporation would otherwise exceed expenditures.

4. FUND FOR FUTURE SOCIAL HOUSING EXPENDITURES

CMHC funding not used during the current fiscal year by the Corporation or the Housing Services Division is eligible for carry forward to future years. Unused CMHC funding is recorded separately in two interest bearing accounts entitled Fund for Future Social Housing Expenditures (FFSHE) and Deferred Federal Contributions (DFC).

	<u>2007</u>	<u>2006</u>
Opening balance, April 1st	\$ 33,447,936	\$ 27,256,473
Gross public housing and other eligible expenditures per Department of Community Services	(80,535,677)	(86,762,321)
Less: Provincial contribution	27,536,685	29,971,900
Less: Municipal contribution	7,213,040	6,670,263
Expenses withdrawn from FFSHE	(45,785,952)	(50,120,158)
CMHC social housing transfer per agreement	54,896,993	55,417,910
Interest earned by the fund	1,088,209	893,711
Net increase in the fund	10,199,250	6,191,463
Closing Balance, March 31st	\$ 43,647,186	\$ 33,447,936

Recoveries from CMHC are subject to an independent audit. Adjustments to recoveries, accounts receivable, deferred federal contributions and the Fund for Future Social Housing Expenditures, arising from the audit process, are recorded in the year the audit is finalized.

5. RECOVERIES FROM PROVINCIAL GOVERNMENT DEPARTMENTS AND MUNICIPALITIES

Costs incurred by the Corporation for Housing Renovation and Affordable Housing Agreements and the amortization of the provincial social housing assets and the interest costs associated with the debt financing of these assets are recovered from the applicable provincial government department or municipality:

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Notes to the Consolidated Financial Statements

March 31, 2007

5. RECOVERIES FROM PROVINCIAL GOVERNMENT DEPARTMENTS AND MUNICIPALITIES (continued)

	<u>2007</u>	<u>2006</u>
Department of Community Services		
Social Housing	\$ 27,536,685	\$ 29,971,900
Home Renovation and Affordable Housing	9,514,833	4,921,072
Recoveries for land losses and bad debts	238,823	3,039,511
Department of Health	1,000,000	-
Department of Justice	-	214,984
Service Nova Scotia	-	1,000,000
Municipal share of public housing costs	7,213,040	6,670,263
	<u>\$ 45,503,381</u>	<u>\$ 45,817,730</u>

6. HOUSING DEVELOPMENT CORPORATION FUND

To provide working capital for the Nova Scotia Housing Development Corporation, the Housing Development Corporation Fund was established by Order-In-Council. The Fund is set up as a revolving account which records all receipts and expenditures, and allows the Corporation to borrow up to \$175 million.

7. MORTGAGES RECEIVABLE

Mortgages receivable have an amortization period of 25 years and five or ten-year renewal terms. Aggregate monthly payments are approximately \$275,826 including interest. Interest rates vary from 4.5% to 13.05%, with renewal dates ranging from April 1, 2007 to October 1, 2016. The mortgages are secured by registered first mortgages on the related properties.

	<u>2007</u>	<u>2006</u>
Mortgages receivable	\$ 65,230,103	\$ 59,227,816
Less: current portion due within one year	3,063,694	3,152,295
provision for concessionary assistance		
and doubtful recoveries	1,533,083	1,518,891
	<u>4,596,777</u>	<u>4,671,186</u>
	<u>\$ 60,633,326</u>	<u>\$ 54,556,630</u>

Estimated principal repayments for the next four years are as follows:

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Notes to the Consolidated Financial Statements

March 31, 2007

7. MORTGAGES RECEIVABLE (continued)

2009	\$ 3,041,890
2010	3,105,670
2011	3,205,033
2012	3,332,284
	<u>\$12,684,877</u>

8. INVESTMENT IN LAND AND SOCIAL HOUSING

	<u>2007</u>	<u>2006</u>
Investment in land	\$ 2,113,824	\$ 2,341,152
Investment in social housing	332,294,954	343,934,004
	<u>334,408,778</u>	<u>346,275,156</u>
Less: provision for doubtful land recoveries	105,371	381,875
provision for fire and liability losses	4,498,759	4,547,452
	<u>4,604,130</u>	<u>4,929,327</u>
	<u>\$ 329,804,648</u>	<u>\$341,345,829</u>

9. LONG-TERM DEBT

	<u>2007</u>	<u>2006</u>
Notes payable	\$ 250,442,261	\$254,732,106
Mortgages payable	62,214,126	64,264,240
	<u>312,656,387</u>	<u>318,996,346</u>
Less: current portion due within one year	12,833,727	12,058,257
	<u>\$ 299,822,660</u>	<u>\$306,938,089</u>

Long term debt is comprised of mortgages and notes payable from various lenders. The amortization of the notes payable ranges from 5 to 36 years. The mortgages payable amortization periods range from 20 to 35 years with either five or ten year renewal terms. Notes payable are secured by investments in social housing. Mortgages and notes payable are repayable in monthly or quarterly instalments of interest and principal.

Interest rates vary from 4.00% to 21.50% with renewal dates ranging from April 1, 2007 to January 1, 2034.

Estimated principal repayments for the next four years are as follows:

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Notes to the Consolidated Financial Statements

March 31, 2007

9. LONG-TERM DEBT (continued)

2008	\$ 13,440,609
2009	13,694,774
2010	14,400,381
2011	14,727,713
	<u>\$56,263,477</u>

10. COMMITMENTS AND CONTINGENCIES

Pursuant to October 1, 1997 Social Housing Agreement, CMHC requires the Corporation to indemnify CMHC against future losses related to their insured loan portfolio for Nova Scotia. As at March 31, 2007 there were 486 loans with an approximate outstanding balance of \$137,216,658 (2006 - \$144,093,882). In the event of default the Corporation would gain title to the assets and act toward mitigation of any loss. The Corporation has reserved for any possible losses as noted.

The Corporation provides mortgage guarantees of interest and principal to lenders financing certain housing projects. As at March 31, 2007 a total of 16 (2006 – 19) mortgage guarantees were in effect, and the outstanding balance of mortgages guaranteed was \$11,725,455 (2006 - \$12,468,250).

The Corporation has established reserves for possible losses on mortgage guarantees and indemnified loans in the amount of \$18,128,981 (2006 - \$17,585,060) which includes a reserve for risks associated with interest fluctuation of \$3,200,000 (2006 - \$3,200,000). In addition, the Corporation has a provision of \$4,000,000 (2006 - \$4,000,000) for self insurance which is included in the provision for fire and other social housing losses as disclosed in Note 8.

There are various claims, which certain Housing Authorities are involved with arising out of the ordinary course of operations. Management does not consider the exposure to such litigation to be material, although this cannot be predicted with certainty. The Corporation has established a provision for fire and liability losses as disclosed in Note 8 of these consolidated financial statements.

11. RELATED PARTY TRANSACTIONS

Included in Note 5 of these consolidated financial statements are recoveries from various Nova Scotia government departments and municipalities related to the Corporation by virtue of common control. Included in the long-term debt of the Corporation are notes payable owing to the Department of Finance totalling \$38,413,137.

12. PARTNERS' EQUITY AND MINORITY INTEREST

The Housing Authorities operate under partnership agreements among the Nova Scotia Department of Community Services – Housing Services, Municipal governments and each Housing Authority. Under the terms of these agreements, the Housing Authorities, as trustees, have lease title to certain rental housing properties for the control, operations, management and administration of various projects.

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Notes to the Consolidated Financial Statements

March 31, 2007

13. OPERATING COSTS (HOUSING AUTHORITIES AND RURAL AND NATIVE)

	<u>2007</u>	<u>2006</u>
Administration	\$ 11,246,190	\$ 10,727,703
Maintenance	20,794,358	18,799,761
Modernization and improvements	9,781,118	9,349,473
Municipal taxes	8,044,893	7,834,591
Other operating	8,718,929	7,708,442
Utilities	17,027,422	16,363,958
	<u>\$ 75,612,910</u>	<u>\$ 70,783,928</u>

14. EMPLOYEE FUTURE BENEFITS

The Housing Authorities each have defined contribution pension plans available to eligible employees.

In 2007, an actuarial valuation of the Public Service award liability was performed. As at March 31, 2007 the Corporation has recorded the actuarial liability for Public Service awards of \$1,959,115 (2006 - \$1,839,967) accruing to employees in the Regional Housing Authorities at retirement.

15. TANGIBLE CAPITAL ASSETS

The investment in social housing disclosed in Note 8 of \$332,294,954 (2006 - \$343,934,004) includes social housing properties acquired through the Social Housing Agreement from the Housing Development Fund and from acquisitions dating back several decades to predecessor housing organizations within government.

These properties were originally recorded at net book value which included the cost of land and buildings. Net book value was previously amortized over the years. Management has estimated the portion assigned to land and buildings because historical information related to the original cost of land versus buildings is not available.

New construction and or acquisitions are separated as to land and building at the time of construction or acquisition.

The tangible capital assets consolidated from the Housing Authorities' financial statements are included in the net book value above. The rates and methods of depreciation used to amortize these assets over their estimated useful lives are as follows:

Buildings	5%	Declining balance
Equipment	20%	Declining balance
Computer equipment	30%	Declining balance
Vehicles	30%	Declining balance
Computer software	25%	Declining balance

NOVA SCOTIA HOUSING DEVELOPMENT CORPORATION

Notes to the Consolidated Financial Statements

March 31, 2007

15. TANGIBLE CAPITAL ASSETS (continued)

The following information on cost, accumulated amortization and net book value is available for those assets:

	<u>2007</u>			<u>2006</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Buildings	\$ 7,603,858	\$ 2,712,384	\$ 4,891,474	\$ 4,946,805
Equipment	93,680	82,200	11,480	14,500
Vehicles	1,993,081	1,510,080	483,001	411,558
Computer software	6,151,512	4,272,094	1,879,418	2,595,169
	<u>\$ 15,842,131</u>	<u>\$ 8,576,758</u>	<u>\$ 7,265,373</u>	<u>\$ 7,968,032</u>