Financial Statements of

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Years ended March 31, 2012 and 2011

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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 statements of financial position as at March 31, 2012, March 31, 2011, and April 1, 2010, the statements of operations, changes in net financial assets and cash flows for the years ended March 31, 2012 and March 31, 2011, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 opinions.

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, 2012, March 31, 2011 and April 1, 2010, and its results of operations and its changes in net financial assets and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants
June 20, 2012
Halifax, Canada

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION
Financial Statements

Years ended March 31, 2012 and 2011

Financial Statements

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statements of Financial Position

March 31, 2012 and March 31, 2011 and April 1, 2010

	March 31 2012	March 31 2011	April 1 2010
Financial assets:			
Cash and cash equivalents (note 6(a))	$ 6,344,453	$ 6,440,526	$ 6,362,635
Accrued interest receivable	10,210,297	10,746,624	10,938,412
HST receivable	547	486	1,444
Accounts receivable	-	-	9,361
Loans to municipal units (note 3)	733,039,744	756,543,431	728,328,217
	749,595,041	773,731,067	745,640,069
Financial liabilities:			
Accounts payable	65,220	50,449	70,847
Accrued interest payable	10,189,073	10,734,037	10,933,171
Employee obligations (note 5(a))	68,917	53,917	38,917
Debentures (note 4)	733,008,304	756,510,927	728,299,838
	743,331,514	767,349,330	739,342,773
Net financial assets	6,263,527	6,381,737	6,297,296
Accumulated surplus	$ 6,263,527	$ 6,381,737	$ 6,297,296

See accompanying notes to financial statements.

On behalf of the Board:

M. Ruley Director

J. Murphy Director

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statements of Operations

Years ended March 31, 2012 and 2011

	Budget 2012	Actual 2012	Actual 2011
Revenue:			
Interest on loans to municipal units	34,210,534	$ 33,172,602	$ 34,459,640
Interest on short-term investments	111,507	78,550	72,497
Recovery of issue costs	365,682	230,267	365,703
Administration fee	440,000	291,901	476,181
	35,127,723	33,773,320	35,374,021
Expenses:			
Interest on debenture debt and short term loans	34,208,701	33,170,779	34,457,915
Debenture issue expenses	373,834	228,822	366,257
Administrative expenses	521,015	491,929	465,408
	35,103,550	33,891,530	35,289,580
Annual operating surplus (deficiency)	24,173	(118,210)	84,441
Accumulated surplus, beginning of year	6,381,737	6,381,737	6,297,296
Accumulated surplus, end of year	$ 6,405,910	$ 6,263,527	$ 6,381,737

See accompanying notes to financial statements.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statements of Changes in Net Financial Assets

Years ended March 31, 2012 and 2011

	Budget 2012	Actual 2012	Actual 2011
Annual operating surplus (deficiency)	$ 24,173	$ (118,210)	$ 84,441
Increase (decrease) in net financial assets	24,173	(118,210)	84,441
Net financial assets, beginning of year	6,381,737	6,381,737	6,297,296
Net financial assets, end of year	$ 6,405,910	$ 6,263,527	$ 6,381,737

See accompanying notes to audited financial statements

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Cash Flows

Years ended March 31, 2012 and 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Annual operating surplus (deficiency)	$ (118,210)	$ 84,441
Items not involving cash:		
Amortization of fair value adjustment on loans to municipal units	(29,622)	(46,514)
Amortization of fair value adjustment on debenture debt	30,248	47,154
Increase in employee obligations	15,000	15,000
Change in non-cash operating working capital (note 6(b))	6,073	(17,425)
	(96,511)	82,656
Investing activities:		
Increase in loans to municipal units	(72,975,251)	(119,045,242)
Decrease in loans to municipal units	96,508,560	90,876,542
	23,533,309	(28,168,700)
Financing activities:		
Issue of debentures	72,975,539	119,046,000
Principal payments on debenture	(96,508,410)	(90,882,065)
	(23,532,871)	28,163,935
Increase (decrease) in cash and cash equivalents	(96,073)	77,891
Cash and cash equivalents, beginning of year	6,440,526	6,362,635
Cash and cash equivalents, end of year	$ 6,344,453	$ 6,440,526

Supplemental cash flow information (note 6)

See accompanying notes to financial statements.

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.

On April 1, 2011, the Corporation adopted the Canadian public sector accounting standards ("PSAB"). These are the first financial statements prepared in accordance with PSAB. Prior to 2012, the financial statements were prepared in accordance with Part V of the CICA Handbook.

In accordance with the transitional provisions in PSAB, the Corporation has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is April 1, 2010 and all comparative information provided has been presented by applying PSAB.

The impact of the transition of the Corporation's financial statements to PSAB has been summarized in note 2.

1. Significant accounting policies:

(a) Basis of accounting:

The Corporation follows the accrual method of accounting for revenues and expenses. Revenues are normally 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 generally three months or less and any short-term loans to municipal units.

(c) Loans to municipal units:

Loans to municipal units are recorded at amortized cost.

(d) Employee future benefits:

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

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 administrated by the Province of Nova Scotia, 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.

(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. During the year, the board approved a policy that requires the reserve fund to be maintained at a minimum of $6 million.

(g) Revenue recognition:

Interest revenue on loans to municipal units is recognized on an accrual basis and reported as revenue in the period earned.

1. Significant accounting policies (continued):

(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.

(i) Future changes in accounting policies:

The Public Sector Accounting Board has issued Section PS 3410 - *Government Transfers* effective for fiscal years beginning on or after April 1, 2012. This section revises and replaces existing Section PS 3410 of the same name and can be applied either retrospectively or prospectively. Section PS 3410 - *Government Transfers* establishes guidance on the recognition, presentation and disclosure of government transfers made to individuals, organizations and other governments. The new standard addresses this with more guidance specifically from the perspectives of both transferring governments and recipient governments. The impact of the adoption of the revised PS 3410 - *Government Transfers* is being evaluated by management and is not known or reasonably estimable at this time.

2. Transitional adjustments:

(a) Basis of presentation:

The adoption of PSAB had no impact on the Corporation's accumulated surplus or annual operating surplus. There were no adjustments to the balance of accumulated surplus as at April 1, 2010 or the 2011 annual operating surplus as a result of implementing the accounting changes.

The Corporation did not elect to use any exemptions allowed in accordance with the transitional provisions of PSAB.

(b) Early adoption of accounting standards:

At the time of transition, the Corporation has early adopted the following accounting standards on a prospective basis. These standards have been reflected prospectively in the financial statements for the current year:

2. Transitional adjustments (continued):

(i) PS 3450 - Financial Instruments:

The Corporation has elected to early adopt Section PS 3450 - *Financial Instruments* ("Section PS 3450") effective for the year ended March 31, 2012. The mandatory application date of Section PS 3450 is for fiscal years beginning on or after April 1, 2012. Section PS 3450 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Financial instruments include primary instruments (such as receivables, payables and equity instruments) and derivative financial instruments (such as financial options, futures and forwards, interest rate swaps and currency swaps). Financial instruments are assigned to one of two measurement categories: fair value, or cost or amortized cost. Almost all derivatives, including embedded derivatives that are not closely related to the host contract, are measured at fair value. Fair value measurement also applies to portfolio investments in equity instruments that are quoted in an active market. Other financial assets and financial liabilities are generally measured at cost or amortized cost. Until an item is derecognized, gains and losses arising due to fair value remeasurement are reported in the statement of remeasurement gains and losses. Budget-to-actual comparisons are not required within the statement of remeasurement gains and losses. When the reporting entity defines and implements a risk management or investment strategy to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, the entity may elect to include these items in the fair value category. New requirements clarify when financial liabilities are derecognized. The offsetting of a financial liability and a financial asset is prohibited in absence of a legally enforceable right to set off the recognized amounts and an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Section PS 3450 outlines new disclosure requirements of items reported on and the nature and extent of risks arising from financial instruments.

Upon adoption of this standard, the Corporation has recorded its financial assets and financial liabilities at cost or amortized cost except for cash and cash equivalents, which are recorded at fair value.

There is no material impact on the financial statements as a result of adopting this standard.

2. Transitional adjustments (continued):

(ii) PS 2601 - Foreign Currency Translation:

The Corporation has elected to early adopt Section PS 2601 – *Foreign Currency Translation* ("Section PS 2601") effective for the year ended March 31, 2012. The mandatory application date of Section PS 2601 is for fiscal years beginning on or after April 1, 2012. This Section revises and replaces Section PS 2600 - *Foreign Currency Translation*. Under Section PS 2601, the definition of currency risk is amended to conform to the definition in Section PS 3450 – *Financial Instruments*. The exception to the measurement of items on initial recognition that applies when synthetic instrument accounting is used is removed. At each financial statement date subsequent to initial recognition, non-monetary items denominated in a foreign currency that are included in the fair value category in accordance with Section PS 3450 are adjusted to reflect the exchange rate at that date. The deferral and amortization of foreign exchange gains and losses relating to long-term foreign currency denominated monetary items is discontinued. Until the period of settlement, exchange gains and losses are recognized in the statement of remeasurement gains and losses rather than the statement of operations. Hedge accounting and the presentation of items as synthetic instruments are removed.

There is no material impact on the financial statements as a result of adopting this standard.

3. Loans to municipal units:

(a) Loans to municipal units in Nova Scotia are made on the security of their debentures and are due in annual instalments for periods up to a maximum of twenty years. Interest rates on the loans range from 1.000% to 6.125%. Repayment terms are negotiated on specific loans and would normally not exceed twenty years.

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

	Loans to municipal units	Debentures payable
2013	$ 99,226,701	$ 99,232,810
2014	84,111,540	84,112,535
2015	79,958,037	79,954,105
2016	79,839,343	79,830,628
2017	70,568,625	70,561,473

4. Debentures:

The debenture debt outstanding at March 31, 2012 totaling $733,008,304 (March 31, 2011 - $756,510,927; April 1, 2010 - $728,299,838) is in Canadian funds and is fully guaranteed by the Province of Nova Scotia, with the exceptions of Series "AT" and the "FCM" loans which are private placements. Interest is payable semi-annually, except for Series "AT", which is payable annually.

At year-end, the total debentures due to the Province of Nova Scotia was $729,633,526 (March 31 - 2011 - $754,445,400; April 1, 2010 - $725,883,973).

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Years ended March 31, 2012 and 2011

4. Debentures (continued):

Series	Date issued	Maturity date Calendar Year	Interest rate	March 31, 2012 Amortized cost of debt outstanding	March 31, 2011 Amortized cost of debt outstanding	April 1, 2010 Amortized cost of debt outstanding
AP	Jan.30/98	2013 to 2019	6.00-6.125	$ 21,575,669	$ 23,975,889	$ 26,235,026
AT*	May 28/99	2012 to 2015	1.000	675,000	843,750	1,012,500
AV	June 1/00	2010	6.875	-	-	4,654,887
AW	Nov. 9/00	2010	6.375	-	-	6,578,951
AX	May 29/01	2011	6.250	-	7,022,169	9,571,874
AY	Nov. 7/01	2011	6.000	-	4,288,267	5,849,262
AZ	May 15/02	2012	6.125	11,345,433	15,828,797	20,307,982
BA	Nov. 7/02	2012 to 2017	5.625-6.000	4,901,074	7,792,324	10,713,425
BB	Jan. 9/03	2012 to 2023	5.913	7,666,526	8,149,599	8,605,326
BC	May 28/03	2012 to 2018	5.375-5.750	12,920,666	17,511,577	22,091,252
BD	Oct. 15/03	2012 to 2018	4.875-5.375	6,690,090	8,484,136	10,299,487
BE	June 10/04	2012 to 2019	5.200-5.750	9,557,118	11,929,642	14,295,501
BF	Sept. 1/04	2012 to 2024	5.205-5.940	71,500,000	77,000,000	82,500,000
BG	Nov. 25/04	2012 to 2019	4.815-5.325	9,642,000	12,551,000	15,458,000
BH	June 1/05	2012 to 2020	4.185-4.880	28,789,000	33,001,000	37,208,000
BI	Nov. 22/05	2012 to 2020	4.240-4.830	30,757,000	34,290,000	39,061,000
BJ	June 1/06	2012 to 2021	4.615-5.080	28,419,000	33,305,000	37,953,000
BK	Oct. 24/06	2012 to 2021	4.165-4.590	36,024,000	39,766,000	43,506,000
FCM-A**	Oct. 31/06	2012 to 2016	2.550	415,400	498,480	581,560
FCM-B**	Mar. 5/07	2013 to 2017	2.620	161,925	194,310	226,695
BL	June 1/07	2012 to 2022	4.400-4.770	43,772,000	48,444,000	53,116,000
BM	Oct. 17/07	2012 to 2022	4.718-5.210	48,039,000	55,489,000	62,900,000
BN	Jul. 7/08	2012 to 2023	4.279-5.088	40,315,000	44,750,000	49,184,000
FCM-C**	Sept. 30/08	2012 to 2018	2.190	462,864	528,987	595,110
BP	Oct. 24/08	2012 to 2023	4.184-5.480	41,757,000	46,699,000	51,641,000
BQ	June 1/09	2012 to 2024	2.271-5.644	58,963,000	64,575,000	70,184,000
BR	Oct 27/09	2012 to 2024	2.330-4.939	37,123,000	40,547,000	43,970,000
BS	June 29/10	2012 to 2025	2.175-4.875	53,032,000	57,485,000	-
BT	Nov 9/10	2012 to 2025	1.790-4.410	55,529,000	61,561,000	-
BU	May 30/11	2012 to 2026	1.630-4.597	30,253,000	-	-
BV	Nov 9/11	2012 to 2026	1.219-4.026	41,007,000	-	-
FCM-D**	Nov 15/11	2012 to 2021	1.750	1,272,728	-	-
FCM-E**	Mar 26/12	2013 to 2032	2.000	442,811	-	-
				$733,008,304	$756,510,927	$728,299,838

All debt directly placed with the Province of Nova Scotia except:

* Placed with private investor

** Placed with Federation of Canadian Municipalities

5. Employee obligations:

(a) Public Service Awards:

As at March 31, 2012, the Corporation has recorded a liability in the amount of $68,917 (March 31, 2011 - $53,917; April 1, 2010 - $38,917) in respect of the provincial public service award for the employees of the Corporation.

(b) Employee pension plan:

Total employer contributions for 2012 were $24,029 (March 31, 2011 - $20,507) and are recognized in administrative expenses in the financial statements.

The date of the last actuarial valuation of the Plan was December 31, 2011. An extrapolation of the entire multi-employer pension plan is as follows:

	March 31, 2012	March 31, 2011
Actuarial value of net assets	$ 4,405,927,000	$ 4,388,119,000
Actuarial value adjustment	(35,922,000)	(86,159,000)
Fair value of net assets available for benefits	4,370,005,000	4,301,960,000
Accrued pension obligation	4,541,817,000	4,240,670,000
Surplus (deficit) of net assets available for benefits over accrued pension obligation	$ (171,812,000)	$ 61,290,000

6. Supplemental cash flow information:

(a) Cash and cash equivalents include:

	March 31, 2012	March 31, 2011	April 1, 2010
Cash	$ 37,453	$ 37,526	$ 109,851
Short-term investments	6,307,000	6,403,000	6,252,784
	$ 6,344,453	$ 6,440,526	$ 6,362,635

6. Supplemental cash flow information (continued):

(b) Change in non-cash working capital:

	March 31, 2012	March 31, 2011
Accrued interest receivable	$ 536,327	$ 191,788
Other receivables	(61)	10,319
Accounts payable	14,771	(20,398)
Accrued interest payable	(544,964)	(199,134)
	$ 6,073	$ (17,425)

(c) Supplemental cash flow information:

	March 31, 2012	March 31, 2011
Interest paid	$ 33,685,495	$ 34,609,895
Interest received	$ 33,687,960	$ 34,612,149

7. Financial instruments:

(a) Fair value

Fair value measurements recognized in the financial statements (cash and cash equivalents) are categorized using the fair value hierarchy that reflects the significance of inputs used in determining the fair values.

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for assets and liabilities that are not based on observable market data.

Cash and cash equivalents have been categorized as Level 1 financial instruments.

7. Financial instruments (continued):

(b) Associated risks:

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.

(i) Interest rate risk

Interest rate risk is the risk that 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 to municipal units is directly matched to its cost of borrowing, thereby mitigating the risk of equity erosion. 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 municipal units, an allowance for doubtful accounts is not required. Due to the fact that all loans to municipal units are guaranteed by the Province of Nova Scotia, it is management's opinion that the Corporation is not exposed to significant credit risk arising from financial instruments.

During the year and at year-end, there are no loans to municipal units which are past due or considered impaired.

7. Financial instruments (continued):

(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 to municipal units and short-term investments and interest earned on the loans to municipal units 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, 2012.

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	March 31, 2012 total	March 31, 2011 total	April 1, 2010 total
Accounts payable	$ 65,220	$ -	$ -	$ -	$ 65,220	$ 50,449	$ 70,847
Accrued interest payable	10,189,073	-	-	-	10,189,073	10,734,037	10,933,171
Employee obligations	68,917	-	-	-	68,917	53,917	38,917
Debentures	99,232,810	314,458,741	251,390,238	67,926,515	733,008,304	756,510,927	728,299,838
	$109,556,020	$314,458,741	$251,390,238	$ 67,926,515	$743,331,514	$767,349,330	$739,342,773