

Financial Statements of

**NOVA SCOTIA MUNICIPAL
FINANCE CORPORATION**

Year ended March 31, 2014



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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, 2014, 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, 2014, 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.

Chartered Accountants
June 17, 2014
Halifax, Canada

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Financial Statements

Year ended March 31, 2014

Financial Statements

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NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

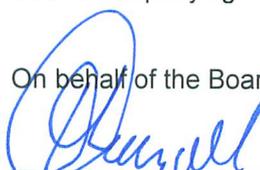
Statement of Financial Position

March 31, 2014, with comparative information for 2013

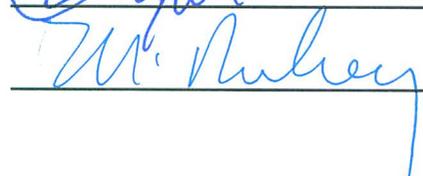
	2014	2013
Financial assets:		
Cash and cash equivalents (note 5(a))	\$ 6,684,214	\$ 6,608,565
Accrued interest receivable	9,973,919	9,976,260
HST receivable	152	752
Accounts receivable	5,513	5,224
Loans (note 2)	797,097,462	771,619,792
	<hr/> 813,761,260	<hr/> 788,210,593
Financial liabilities:		
Accounts payable	51,009	21,522
Employee obligation	98,917	83,917
Accrued interest payable	9,964,606	9,966,465
Debentures (note 3)	797,058,969	771,581,620
	<hr/> 807,173,501	<hr/> 781,653,524
Net financial assets	<hr/> 6,587,759	<hr/> 6,557,069
Accumulated surplus	<hr/> \$ 6,587,759	<hr/> \$ 6,557,069

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, 2014, with comparative information for 2013

	Budget 2014	Actual 2014	Actual 2013
Revenue:			
Interest on loans	32,773,177	\$ 31,823,718	\$ 31,986,205
Interest on short-term investments	67,377	74,733	85,404
Recovery of issue costs	571,054	389,566	439,106
Administration fee	888,159	474,685	688,946
	<u>34,299,767</u>	<u>32,762,702</u>	<u>33,199,661</u>
Expenses:			
Interest on debenture debt and short term loans	32,771,198	31,821,744	31,983,909
Debenture issue expenses	566,758	386,911	439,696
Administrative expenses	557,815	523,357	482,514
	<u>33,895,771</u>	<u>32,732,012</u>	<u>32,906,119</u>
Annual operating surplus	403,996	30,690	293,542
Accumulated surplus, beginning of year	6,557,069	6,557,069	6,263,527
Accumulated surplus, end of year	<u>\$ 6,961,065</u>	<u>\$ 6,587,759</u>	<u>\$ 6,557,069</u>

See accompanying notes to financial statements.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Changes in Net Financial Assets

Year ended March 31, 2014, with comparative information for 2013

	Budget 2014	Actual 2014	Actual 2013
Annual operating surplus	\$ 403,996	\$ 30,690	\$ 293,542
Increase in net financial assets	403,996	30,690	293,542
Net financial assets, beginning of year	6,557,069	6,557,069	6,263,527
Net financial assets, end of year	\$ 6,961,065	\$ 6,587,759	\$ 6,557,069

See accompanying notes to audited financial statements

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Cash Flows

Year ended March 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Annual operating surplus	\$ 30,690	\$ 293,542
Items not involving cash:		
Amortization of fair value adjustment on loans	(11,805)	(17,612)
Amortization of fair value adjustment on debenture debt	11,805	17,689
Increase in employee obligations	15,000	15,000
Change in non-cash operating working capital (note 5(b))	30,280	(37,695)
	<u>75,970</u>	<u>270,924</u>
Investing activities:		
increase in loans	(118,671,225)	(137,789,140)
decrease in loans	93,205,360	99,226,701
	<u>(25,465,865)</u>	<u>(38,562,439)</u>
Financing activities:		
Issue of debentures	118,672,000	137,788,437
Principal payments on debenture	(93,206,456)	(99,232,810)
	<u>25,465,544</u>	<u>38,555,627</u>
Increase in cash and cash equivalents	75,649	264,112
Cash and cash equivalents, beginning of year	6,608,565	6,344,453
Cash and cash equivalents, end of year	<u>\$ 6,684,214</u>	<u>\$ 6,608,565</u>

Supplemental cash flow information (note 5)

See accompanying notes to audited financial statements.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements

Year ended March 31, 2014

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.

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 Canadian Professional Accountants ("CPA").

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 three months or less and short-term loans.

(c) Loans:

Loans are recorded at amortized cost.

(d) Employee future benefits:

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

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.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

1. Significant accounting policies (continued):

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, 2014

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 1.0% to 6.125%. Repayment terms are negotiated on specific loans and would normally not exceed twenty years.

	2014	2013
Loans	\$797,097,462	\$771,619,792
Less current portion	97,420,500	93,205,361
	<u>\$699,676,962</u>	<u>\$678,414,431</u>

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

	Loans	Debentures payable
2015	\$ 97,420,500	\$ 97,416,026
2016	99,864,597	99,856,549
2017	87,953,478	87,946,394
2018	81,598,263	81,580,720
2019	74,958,748	74,956,842

3. Debentures:

The debenture debt outstanding at March 31, 2014 totaling \$797,058,969 (2013 - \$771,581,620) is in Canadian funds and are placed with the Province of Nova Scotia, with the exception 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 \$789,126,683 (2013 - \$762,870,467).

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

3. Debentures (continued):

Series	Date issued	Maturity date Calendar Year	Interest rate	2014
				Amortized cost of debt outstanding
AP	Jan.30/98	2015 to 2019	6.000-6.125	\$ 16,314,534
AT*	May 28/99	2014 to 2015	1.000	337,500
BA	Nov. 7/02	2014 to 2017	5.750-6.000	1,660,117
BB	Jan. 9/03	2014 to 2023	5.913	6,611,683
BC	May 28/03	2014 to 2018	5.500-5.750	3,710,484
BD	Oct. 15/03	2014 to 2018	5.125-5.375	3,227,733
BE	June 10/04	2014 to 2019	5.450-5.750	4,794,676
BF	Sept. 1/04	2014 to 2024	5.435-5.940	60,500,000
BG	Nov. 25/04	2014 to 2019	5.0500-5.325	4,085,000
BH	June 1/05	2014 to 2020	4.470-4.880	20,318,000
BI	Nov. 22/05	2014 to 2020	4.440-4.830	23,690,000
BJ	June 1/06	2014 to 2021	4.765-5.080	19,444,000
BK	Oct. 24/06	2014 to 2021	4.285-4.590	29,086,000
FCM-A**	Oct. 31/06	2014 to 2016	2.550	249,240
FCM-B**	Mar. 5/07	2015 to 2017	2.620	97,155
BL	June 1/07	2014 to 2022	4.465-4.770	33,708,000
BM	Oct. 17/07	2014 to 2022	4.857-5.210	33,275,000
BN	Jul. 7/08	2014 to 2023	4.491-5.088	31,288,000
FCM-C**	Sept. 30/08	2014 to 2018	2.190	330,618
BP	Oct. 24/08	2014 to 2023	4.565-5.480	31,871,000
BQ	June 1/09	2014 to 2024	3.212-5.644	47,731,000
BR	Oct. 27/09	2014 to 2024	3.128-4.939	30,176,000
BS	June 29/10	2014 to 2025	3.150-4.875	44,115,000
BT	Nov. 9/10	2014 to 2025	2.320-4.410	43,461,000
BU	May 30/11	2014 to 2026	2.491-4.597	24,581,000
BV	Nov. 9/11	2014 to 2026	1.767-4.026	33,613,000
FCM-D**	Nov. 15/11	2014 to 2021	1.750	1,018,182
FCM-E**	Mar. 26/12	2015 to 2032	2.000	398,531
BW	May 15/12	2014 to 2027	1.905-3.856	39,047,000
FCM-F**	July 3/12	2014 to 2032	2.000	1,727,516
BX	July 6/12	2014 to 2022	1.581-3.156	30,400,000
FCM-G**	Aug. 22/12	2014 to 2032	2.000	3,800,000
BY	Nov. 9/12	2014 to 2027	1.630-3.58	53,720,000
BZ	May 15/13	2014 to 2028	1.330-3.489	73,805,000
CA	Nov. 15/13	2014 to 2028	1.285-4.114	44,867,000
				\$ 797,058,969

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

* Placed with private investor

** 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, 2014

4. Employee obligations:

(a) Public Service Awards:

As at March 31, 2014, the Corporation has recorded a liability in the amount of \$98,917 (2013 - \$83,917) in respect of the provincial public service award for the employees of the Corporation.

(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 2014 were \$28,412 (2013 - \$26,592) and are recognized in administrative expenses in the financial statements.

The Corporation is not responsible for any under-funded liability, nor does the Corporation have access to any surplus that may arise in this Plan.

5. Supplemental cash flow information:

(a) Cash and cash equivalents include:

	2014	2013
Cash	\$ 76,814	\$ 33,565
Short-term investments	6,607,400	6,575,000
	<u>\$ 6,684,214</u>	<u>\$ 6,608,565</u>

(b) Change in non-cash working capital:

	2014	2013
Accrued interest receivable	\$ 2,341	\$ 234,037
Other receivables	311	(5,429)
Accounts payable	29,487	(43,695)
Accrued interest payable	(1,859)	(222,608)
	<u>\$ 30,280</u>	<u>\$ (37,695)</u>

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

5. Supplemental cash flow information (continued):

(c) Supplemental cash flow information:

	2014	2013
Interest paid	\$ 31,811,798	\$ 32,188,829
Interest received	\$ 31,813,773	\$ 32,191,054

6. 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 is categorized as Level 1.

Short-term investments are categorized as Level 2 financial instruments as short-term loans to municipalities are not quoted in an active market. Their carrying value approximates the fair value due to the short term to maturity.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

6. 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 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 municipalities an allowance for doubtful accounts is not required. 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 which are past due or considered impaired.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

6. 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 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, 2014:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	March 31, 2014 total
Accounts payable	\$ 51,013	\$ -	\$ -	\$ -	\$ 51,013
Accrued interest payable	9,964,606	-	-	-	9,964,606
Employee obligations	32,559	65,481	876	-	98,916
Debentures (principal)	97,416,026	344,340,505	315,611,458	39,717,437	797,085,426
Debentures (interest)	30,484,884	86,755,783	42,350,497	3,124,662	162,715,826
	\$ 137,949,088	\$ 431,161,769	\$ 357,962,831	\$ 42,842,099	\$ 969,915,787

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Schedule of Administrative Expenses

Year ended March 31, 2014, with comparative information for 2013

	2014 Budget	2014 Actual	2013 Actual
Salaries and benefits	\$ 372,190	\$ 375,571	\$ 340,900
Travel	9,000	2,131	2,452
Equipment and maintenance	5,000	2,818	4,964
Printing	3,350	4,935	5,631
Postage	2,200	1,622	1,787
Telecommunications	4,400	4,090	3,963
Stationary and supplies	3,000	1,711	1,630
Professional services	35,400	32,875	32,265
Bank charges	5,100	5,160	4,964
Directors' fees and expenses	15,625	8,531	6,484
Audit Committee fees and expenses	4,200	1,455	3,165
Professional development	15,500	15,745	8,620
Dues and subscriptions	3,900	2,880	3,379
Insurance	750	750	750
Rent	38,700	34,108	35,072
Other	500	83	444
Special projects	12,500	12,828	12,855
Sponsorship projects	14,500	16,064	13,189
Municipal client training initiatives	12,000	-	-
	\$ 557,815	\$ 523,357	\$ 482,514