

Financial Statements of

**NOVA SCOTIA MUNICIPAL
FINANCE CORPORATION**

Year ended March 31, 2017



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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, 2017, 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, 2017, 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 Professional Accountants, Licensed Public Accountants

June 20, 2017

Halifax, Canada

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Financial Statements

Year ended March 31, 2017

Financial Statements

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NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Financial Position

March 31, 2017, with comparative information for 2016

	2017	2016
Financial assets:		
Cash and cash equivalents (note 5(a))	\$ 7,035,872	\$ 7,431,903
Accrued interest receivable	8,972,550	9,505,829
HST receivable	558	119
Accounts receivable	85	113
Loans (note 2)	797,415,572	818,925,540
	<hr/> 813,424,637	<hr/> 835,863,504
Financial liabilities:		
Accounts payable	50,581	59,176
Employee obligation (note 4)	86,195	86,195
Accrued interest payable	8,967,588	9,500,866
Short-term loan due to Province of Nova Scotia (note 7)	332,700	690,887
Debentures (note 3)	797,396,789	818,900,585
	<hr/> 806,833,853	<hr/> 829,237,709
Net financial assets	<hr/> 6,590,784	<hr/> 6,625,795
Accumulated surplus	<hr/> \$ 6,590,784	<hr/> \$ 6,625,795

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, 2017, with comparative information for 2016

	Budget 2017	Actual 2017	Actual 2016
Revenue:			
Interest on loans	28,777,024	\$ 28,714,109	\$ 29,875,213
Interest on short-term investments	45,031	59,236	55,609
Recovery of issue costs	377,618	281,798	352,122
Administration fee	442,089	337,932	450,562
	29,641,762	29,393,075	30,733,506
Expenses:			
Interest on debenture debt and short term loans	28,775,604	28,719,686	29,877,359
Debenture issue expenses	374,595	282,917	351,918
Administrative expenses (schedule)	475,029	425,483	454,952
	29,625,228	29,428,086	30,684,229
Annual operating (deficit) surplus	16,534	(35,011)	49,277
Accumulated surplus, beginning of year	6,625,795	6,625,795	6,576,518
Accumulated surplus, end of year	\$ 6,642,329	\$ 6,590,784	\$ 6,625,795

See accompanying notes to financial statements.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Changes in Net Financial Assets

Year ended March 31, 2017, with comparative information for 2016

	Budget 2017	Actual 2017	Actual 2016
Annual operating (deficit) surplus	\$ 16,534	\$ (35,011)	\$ 49,277
(Decrease) increase in net financial assets	16,534	(35,011)	49,277
Net financial assets, beginning of year	6,625,795	6,625,795	6,576,518
Net financial assets, end of year	\$ 6,642,329	\$ 6,590,784	\$ 6,625,795

See accompanying notes to audited financial statements

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Annual operating (deficit) surplus	\$ (35,011)	\$ 49,277
Item not involving cash:		
Amortization of fair value adjustment on loans	(5,734)	(7,685)
Amortization of fair value adjustment on debenture debt	5,734	7,685
Increase in employee obligations	-	5,718
Change in non-cash operating working capital (note 5(b))	(367,192)	58,736
	(402,203)	113,731
Investing activities:		
Issuance of loans to units	(84,482,958)	(112,640,529)
Payments received on loans to units	105,998,660	109,036,923
	21,515,702	(3,603,606)
Financing activities:		
Proceeds of debentures	84,483,000	112,641,364
Principal payments on debenture	(105,992,530)	(109,028,549)
	(21,509,530)	3,612,815
(Decrease) increase in cash and cash equivalents	(396,031)	122,940
Cash and cash equivalents, beginning of year	7,431,903	7,308,963
Cash and cash equivalents, end of year	\$ 7,035,872	\$ 7,431,903

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, 2017

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.

(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, 2017

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, 2017

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 1.052% to 6.125%. Repayment terms are negotiated on specific loans and would normally not exceed twenty years.

	2017	2016
Loans	\$797,415,572	\$818,925,540
Less amounts due within 12 months	105,958,442	105,998,660
Remaining balance	\$691,457,130	\$712,926,880

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

	Loans	Debentures payable
2018	\$105,958,442	\$105,950,856
2019	99,329,477	99,338,978
2020	91,484,353	91,490,438
2021	89,568,745	89,575,639
2022	74,604,024	74,605,612

3. Debentures:

The debenture debt outstanding at March 31, 2017 totaling \$797,396,789 (2016 - \$818,900,585) 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 \$789,357,980 (2016 - \$809,991,452).

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

3. Debentures (continued):

				2017
Series	Date issued	Maturity date Calendar Year	Interest rate	Amortized cost of debt outstanding
AP	Jan.30/98	2018 to 2019	6.000-6.125	\$ 7,125,455
BA	Nov. 7/02	2017	6.000	614,962
BB	Jan. 9/03	2017 to 2023	5.913	4,779,980
BC	May 28/03	2017 to 2018	5.750	2,580,158
BD	Oct. 15/03	2017 to 2018	5.250-5.375	2,029,539
BE	June 10/04	2017 to 2019	5.650-5.750	526,990
BF	Sept. 1/04	2017 to 2024	5.620-5.940	44,000,000
BG	Nov. 25/04	2017 to 2019	5.205-5.325	938,000
BH	June 1/05	2017 to 2020	4.695-4.880	8,564,000
BI	Nov. 22/05	2017 to 2020	4.645-4.830	13,012,000
BJ	June 1/06	2017 to 2021	4.920-5.080	2,890,000
BK	Oct. 24/06	2017 to 2021	4.450-4.590	18,646,000
BL	June 1/07	2017 to 2022	4.625-4.770	20,666,000
BM	Oct. 17/07	2017 to 2022	5.010-5.210	11,175,000
BN	Jul. 7/08	2017 to 2023	4.771-5.088	18,882,000
FCM-C*	Sept. 30/08	2017 to 2018	2.190	132,249
BP	Oct. 24/08	2017 to 2023	5.010-5.480	17,332,000
BQ	June 1/09	2017 to 2024	4.388-5.644	30,763,000
BR	Oct. 27/09	2017 to 2024	3.902-4.939	19,739,000
BS	June 29/10	2017 to 2025	3.965-4.875	31,284,000
BT	Nov. 9/10	2017 to 2025	3.170-4.410	24,152,000
BU	May 30/11	2017 to 2026	3.382-4.597	16,073,000
BV	Nov. 9/11	2017 to 2026	2.700-4.026	22,495,000
FCM-D*	Nov. 15/11	2017 to 2021	1.750	636,364
FCM-E*	Mar. 26/12	2018 to 2032	2.000	332,111
BW	May 15/12	2017 to 2027	2.558-3.856	26,218,000
FCM-F*	July 3/12	2017 to 2032	2.000	1,454,753
BX	July 6/12	2017 to 2022	2.217-3.156	25,600,000
FCM-G*	Aug. 22/12	2017 to 2032	2.000	3,200,000
BY	Nov. 9/12	2017 to 2027	2.250-3.580	42,453,000
BZ	May 15/13	2017 to 2028	1.845-3.489	57,275,000
CA	Nov. 15/13	2017 to 2028	2.145-4.114	36,293,000
CB	June 5/14	2017 to 2029	1.620-3.792	37,405,000
CC	Nov. 17/14	2017 to 2029	1.681-3.559	59,878,000
CD	June 1/15	2017 to 2030	1.192-3.205	37,135,000
FCM-H*	Oct. 30/15	2017 to 2025	1.750	2,287,228
CE	Nov. 20/15	2017 to 2030	1.052-3.449	64,346,000
CF	May 16/16	2017 to 2031	1.150-3.475	64,567,000
CG	Nov. 15/16	2017 to 2031	1.150-3.108	19,916,000
				\$ 797,396,789

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, 2017

4. Employee obligations:

(a) Public Service Awards:

As at March 31, 2017, the Corporation has recorded a liability in the amount of \$86,195 (2016 - \$86,195) in respect of the provincial public service award for the employees of the Corporation.

On April 7, 2015, the Province announced that the public service award 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 2017 were \$23,605 (2016 - \$26,171) and are recognized in administrative expenses in the financial statements.

Actuarial valuations of the Plan 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 Plan's consulting actuaries, Mercer, performed a valuation as at December 31, 2015 and issued their report in June 2016. The report indicated that the Plan had a funding excess of \$44,869,000 (December 31, 2014 – funding excess of \$123,655,000)

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:

	2017	2016
Cash	\$ 6,703,172	\$ 6,741,016
Short-term investments	332,700	690,887
	<u>\$ 7,035,872</u>	<u>\$ 7,431,903</u>

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

5. Supplemental cash flow information (continued):

(b) Change in non-cash working capital:

	2017	2016
Accrued interest receivable	\$ 533,279	\$ 318,342
Other receivables	(411)	6,036
Accounts payable	(8,595)	19,311
Accrued interest payable	(533,278)	(315,840)
Due to Province of Nova Scotia	(358,187)	30,887
	\$ (367,192)	\$ 58,736

(c) Supplemental cash flow information:

	2017	2016
Interest paid	\$ 29,247,229	\$ 30,185,514
Interest received	\$ 29,241,419	\$ 30,183,883

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.

(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.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

6. Financial instruments (continued):

(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. The maximum exposure to credit risk is equal to the carrying amount of the loans.

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, 2017:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	March 31, 2017 total
Accounts payable	\$ 50,586	\$ -	\$ -	\$ -	\$ 50,586
Accrued interest payable	8,967,588	-	-	-	8,967,588
Employee obligations	28,721	42,000	15,474	-	86,195
Short-term loan	332,700	-	-	-	332,700
Debentures (principal)	105,950,856	355,010,667	294,603,908	41,835,254	797,400,685
Debentures (interest)	26,871,306	73,415,608	27,483,878	3,961,902	131,732,694
	\$ 142,201,757	\$ 428,468,275	\$ 322,103,260	\$ 45,797,156	\$ 938,570,448

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2017

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 \$332,700 (2016 - \$690,887). The balance bears interest at the Canadian Bankers acceptance rate and will be paid off through the bi-annual debenture issuance.

NOVA SCOTIA MUNICIPAL FINANCE CORPORATION

Schedule of Administrative Expenses

Year ended March 31, 2017, with comparative information for 2016

	2017 Budget	2017 Actual	2016 Actual
Salaries and benefits	\$ 297,794	\$ 295,591	\$ 314,786
Travel	5,000	1,450	5,816
Equipment and maintenance	8,600	2,941	3,670
Printing	6,200	4,995	6,703
Postage	2,400	1,582	1,490
Telecommunications	2,580	1,688	2,292
Stationary and supplies	1,300	360	1,433
Professional services	35,700	34,075	35,700
Bank charges	5,700	5,413	5,497
Directors' fees and expenses	14,500	5,577	4,807
Audit Committee fees and expenses	3,200	937	1,367
Professional development	10,000	4,184	6,643
Dues and subscriptions	3,500	4,893	2,681
Insurance	785	834	785
Rent	38,270	35,498	34,790
Other	500	46	173
Advertising	2,500	1,995	-
Special projects	13,500	1,924	12,226
Sponsorship projects	15,000	16,500	14,093
Municipal client training initiatives	8,000	5,000	-
	\$ 475,029	\$ 425,483	\$ 454,952