Nova Scotia Municipal Finance Corporation

32nd
Annual Accountability Report
2012

Nova Scotia

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Message from the Chair

AS CHAIR OF the Nova Scotia Municipal Finance Corporation, it is my pleasure to present the Nova Scotia Municipal Finance Corporation's 32nd Annual Report for the 2011–12 fiscal year.

DEBENTURE ISSUES AND SHORT-TERM FINANCING

The primary goal of the Corporation is to provide the lowest possible long-term and short-term interest rates to its clients. In 2011–12, the Corporation was able to achieve this goal through its annual debenture issuance. The Corporation placed two debenture issues for $30.3 million, and $41.0 million, two Federation of Canadian Municipalities loans for $1.3 million, and $442,811 resulting in total long-term loan activity of $73.0 million during the fiscal year. The Corporation issued $4.3 million in short-term loans in 2011–12. Due to favourable market conditions, financing rates provided to municipalities were the lowest in the Corporation's history.

ACCOMPLISHMENTS

I am pleased to report that this has been another productive and successful year at the Municipal Finance Corporation.

The Audit Committee, which was established in 2009–10, was very active this year. The Audit Committee provides greater accountability and transparency to our clients by assisting the Board of Directors of the Municipal Finance Corporation in fulfilling its oversight responsibilities related to the quality and integrity of financial reporting.

In the 2011–12 fiscal year, the Municipal Finance Corporation completed its sponsored series of Municipal Finance Workshops. Dalhousie University Professor Jack Novack led four sessions of one-day workshops focused on municipal finance and budgeting for non-financial municipal staff and Councillors. The workshops were extremely successful, with each workshop receiving excellent feedback from the attendees.

In July of 2011, the Municipal Finance Corporation moved to the 15th floor of Maritime Centre. The new offices have provided the Corporation with much needed space, but still allows the Corporation to remain close to the Municipal Services Division of Service Nova Scotia and Municipal Relations.

At this time, I would like to extend my appreciation by thanking the Board Members, the staff of the Corporation, and the staff of the Provincial Departments of Service Nova Scotia and Municipal Relations, Finance, and Justice for their advice and assistance throughout the year.

Kevin Malloy, CA
Chair

Directors of the Corporation (as of March 31, 2012)

Kevin Malloy CA, Chair
Deputy Minister
Service Nova Scotia and Municipal Relations

Marc Britney
Councillor
Town of Middleton

Keith Hunter
Warden
Municipality of the County of Cumberland

Janet Murphy
Consultant
Halifax, Nova Scotia

Cathie Osborne CGA
Deputy Auditor General
Halifax Regional Municipality

Byron Rafuse CMA
Associate Deputy Minister
Department of Finance

KEVIN MALLOY

On December 8, 2008, Kevin Malloy was appointed Deputy Minister of Service Nova Scotia and Municipal Relations (SNSMR). He joined SNSMR in November of 2004 to fill the Assistant Deputy Minister (ADM) position. Prior to joining SNSMR, he took over the responsibilities of Controller for the Province of Nova Scotia on July 19, 1999. As the senior financial position in government, the Controller is responsible for leading and directing the corporate financial systems including accountability control systems; the central accounting system; the Internal Audit function; internal and external reporting systems; and government payroll services. Prior to being appointed Controller, Kevin was Director of Finance for the Department of Transportation and Public Works. Kevin joined government in 1984. He spent five years with the provincial Auditor General's office, and subsequent to those, nine years with the Department of Education.

Kevin is past-President of the Institute for Citizen Centred Service, a member of the Institute of Chartered Accountants of Nova Scotia, serves as Past President of the Financial Management Institute (Halifax Chapter), and is on a number of boards.

MARC BRITNEY

Marc Britney graduated from Dalhousie University with a Bachelor of Arts in 1987 and earned his Certified Financial Planner designation in 1998. He has been a financial planner and branch manager with SISIP Financial Services since 2001. Marc was first elected to the Council of the Town of Middleton in 1993 and has served on various boards and committees during his terms on Council. Marc was appointed to the Municipal Finance Corporation Board of Directors on the recommendation of the Union of Nova Scotia Municipalities in 2010.

KEITH HUNTER

Keith Hunter graduated from Dalhousie University with a Bachelor of Science degree in 1969. He owned Jerry's Supermarket in Amherst, Nova Scotia, from 1969–2006. In 1991, Keith was elected to the Council of the Municipality of the County of Cumberland (presently in 6th term), and served as Deputy Warden from 1998–1999. In 2000, he was elected Warden of Cumberland County. Keith has also served on various boards, such as: 1991–2007, Board Member and Chair, Athol Forestry Cooperative; 2005–present, Board Member of Nova Scotia Municipal Finance Corporation; 1991–2001, Board Member of Central Nova Tourist Association; 2006–2007, Board Member of Federation of Canadian Municipalities; 2006–2007, Chair of Atlantic Caucus – FCM; Past Chair, Cumberland Joint Services Management Authority (Solid Waste); Past Chair, Entrance Development Committee (a sub-committee of CREDA, established to beautify the area between the NS/NB border and the Town of Amherst, to attract more tourists to Amherst and our Sunrise and Glooscap Trails); 1992–2006, Chair, North Tyndal Wellfield Advisory Committee. From 2006–2010, Keith served on the UNSM Board of Directors. 2008–2010 and 2011–2012, Keith served as the Rural Caucus Chair on the UNSM Board of Directors.

JANET MURPJHY

Janet Murphy is an independent financial services consultant with a Master's degree in Business Administration from Saint Mary's University and a Bachelor of Arts in Economics from Memorial University. Her career in financial management of over 20 years has included Business Manager for the Hydro Production Division of Nova Scotia Power and Controller for the Nova Scotia Barristers' Society. She has volunteered on various committees including the Professional Development Committee of HRANS, Dr. P. Anthony Johnstone Scholarship Committee, Student Advisory Council for Beechville Middle School, and served the Roman Catholic Archdiocese of Nova Scotia. She was appointed to the Municipal Finance Corporation's Board of Directors as Member at Large in 2010.

CATHIE OSBORNE

Cathie Osborne began municipal service in 1979 with the City of Dartmouth. With over 30 years of experience in municipal government, Cathie brings a wealth of public sector experience to the Board. Cathie is a graduate of Saint Mary's University, where she earned her Bachelor of Commerce degree and Certificate in Human Resource Management in 1999. Cathie achieved her Certified General Accountant designation in 2003 and has held the position of Deputy Auditor General for the Halifax Regional Municipality since April 1, 2010. Cathie's prior responsibilities include the establishment and management of the first internal audit function in HRM and operational responsibility for general revenues.

BYRON RAFUSE

Byron Rafuse was appointed Controller for the Province of Nova Scotia in June 2005, and additionally as Associate Deputy Minister of Finance in March 2010. Byron has more than 25 years of experience with the provincial government, where he has held several senior financial and program positions within the departments of the Solicitor General, Justice, Finance and Health.

Byron's previous work experience includes several high ranking accounting and financial positions for several government departments. He has also participated in the development of the corporate budget for the Province of Nova Scotia.

Byron graduated from Saint Mary's University with a Bachelor of Commerce. He is a Certified Management Accountant and is currently on the Board of the Nova Scotia Society of Management Accountants, as well as various other boards and trusteeships.

Officers of the Corporation

Chair
Kevin Malloy, CA
Deputy Minister
Service Nova Scotia and
Municipal Relations

Chief Executive Officer and Treasurer
Bob Houlihan, CGA
Nova Scotia Municipal
Finance Corporation

Corporate Secretary
Paul Wills, CMA
Municipal Advisor
Service Nova Scotia and
Municipal Relations

General Counsel
Jennifer Glennie
Department of Justice

Assistant Treasurer
Roy Spence
Director,
Liability Management &
Treasury Services
Department of Finance

PAUL WILLIS

Paul Wills is currently a Municipal Advisor with Service Nova Scotia and Municipal Relations with the Province of Nova Scotia and has been in this role since September 2008. Prior to this he was the Manager, Municipal Finance, with the same department.
He graduated from Saint Mary's University in 1987 and obtained his Certified Management Accountant (CMA) designation in 1994. Paul worked with the County of Kings where he was employed as the Chief Accountant for eight years. From there, he moved to the Town of New Glasgow in the role of Director of Corporate Services for two years before accepting the Manager's position with the Province. Paul is the past Chair of the Tangible Capital Asset Committee for Nova Scotia and the past chair of the Financial Reporting and Accounting Manual Committee.

JENNIFER GLENNIE

Jennifer Glennie is a solicitor with Legal Services, who joined the Justice team in July of 2008. Before joining Justice, Jennifer was a partner practicing corporate and commercial law with a large Atlantic Canadian firm. She is currently serving the Department of Finance, Municipal Finance Corporation, as well as crown corporations and agencies for which the Minister of Finance is responsible.
Jennifer is a Peer Volunteer and Committee Member of the Lawyers' Assistance Program, and she is the Chair of Justice's Head Office Healthy Workplace Committee.

ROY SPENCE

Roy Spence joined the Department of Finance in October 1998 as the Director, Liability Management and Treasury Services. Prior to joining the Province of Nova Scotia, Roy was the Director of Fiscal Management in the Provincial Treasury, Province of Prince Edward Island. That position had responsibility for liability management and other finance functions.

Roy graduated from Lakehead University with a Master of Arts in Economics. He also taught both graduate and undergraduate courses in economics for a number of years prior to joining the public service.

Staff of the Corporation

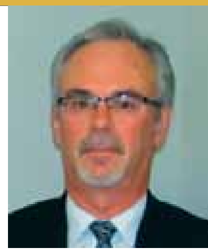
Chief Executive Officer and Treasurer
Bob Houlihan, CGA

Manager of Financial Services
Bob Audoux, CGA

Manager of Client Services
Melissa Mosher, MPA

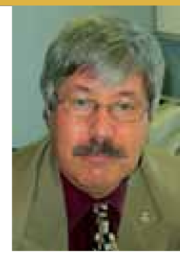
Administrative Assistant
Margo Horne

Summer Student
Kristen Stallard



BOB HOULIHAN

Bob Houlihan has been employed in the government finance field for 25 years. He has held various positions with the City of Halifax, Halifax Regional Municipality and the provincial government including Municipal Advisor with Service Nova Scotia and Municipal Relations and Senior Corporate Financial Analyst with the Treasury Board Office. Bob was appointed CEO and Treasurer of the Corporation in October of 2010. He has a Bachelor of Commerce from Saint Mary's University and is a Certified General Accountant.



BOB AUDOUX

Bob Audoux has been employed by the Corporation for over 13 years. In addition to Bob's many years of service with the Corporation, he has many years of previous experience with the Provincial government and the private sector. Bob completed his Certified General Accounting designation in 2009.

MELISSA MOSHER

Melissa Mosher has been employed by the Provincial Government since 2006, where she began her career at the Corporation as the Manager of Client Services. During her time at the Corporation, she had the opportunity to take a 15-month secondment with the Municipal Services Division of Service Nova Scotia and Municipal Relations. Melissa earned her Bachelor of Arts from the University of Manitoba (2004) and her Master of Public Administration from Dalhousie University (2006).

MARGO HORNE

Margo Horne has over 30 years of experience working with municipalities and with the Province of Nova Scotia. She has extensive experience working with municipal finance and administration.

KRISTEN STALLARD

Kristen Stallard is the 2012 Master of Public Administration student summer intern. She holds a Bachelor of Arts in Political Science from St. Francis Xavier University and a Master of Arts in Political Science from the University of Toronto. She is currently working towards a Master of Public Administration from Dalhousie University (expected 2013). Kristen is originally from New Glasgow, Nova Scotia.

How the Corporation Functions

AUTHORITY

The Nova Scotia Municipal Finance Corporation was established by an Act of the Legislature of the Province of Nova Scotia in 1979, Chapter 301 of the Revised Statutes of Nova Scotia, 1989. The legislative authority for the Corporation is located in the *Municipal Finance Corporation Act*.

MISSION AND PURPOSE

The mission of the Corporation is to provide financing to its clients for approved capital projects at competitive rates, within acceptable risk parameters, and to provide advice and assistance to clients regarding financial management.

The Corporation was created to provide financial assistance for municipalities, municipal enterprises, school boards, and hospitals through a centralized borrowing authority. The Corporation fulfils its purpose through the issuance of pooled debenture issues. Pooling of borrowing requirements eliminates the need for individual municipalities to negotiate and administer their own debenture issues.

All municipalities and municipal enterprises must finance their external capital requirements through the Corporation. Exceptions exist where funds may be borrowed from other governments. Most school board and hospital capital projects are financed directly by the Province of Nova Scotia.

The Corporation collaborates with the Association of Municipal Administrators of Nova Scotia and Service Nova Scotia and Municipal Relations, as well as with other professional associations, in the building of financial management capacity in local governments across Nova Scotia.

ADMINISTRATION

A Board of Directors appointed by the Governor-in-Council governs the Corporation. There are currently six Directors on the Board: two members are senior public servants, two members are appointed upon the recommendation of the Union of Nova Scotia Municipalities, one member is appointed from the community at large, and one member is appointed upon the recommendation of the Association of Municipal Administrators of Nova Scotia.

The Corporation is completely self-funded. The Minister of Service Nova Scotia and Municipal Relations is required by legislation to approve the annual administrative budget. The Corporation levies fees on loans made to its clients to help offset the administrative expenses of the Corporation.

Support staff and resources of the Provincial Departments of Finance and Service Nova Scotia and Municipal Relations have been provided to the Corporation. The Corporation contracts with the Department of Justice for the provision of legal services. The advice and assistance given by all three provincial departments is a valuable contribution to the operation of the Corporation.

OFFICE LOCATION

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1505 Barrington Street
Halifax, NS B3J 3K5

Mailing address:
PO Box 850, Station M
Halifax, NS B3J 2V2

Telephone (902) 424-6333
Fax (902) 424-0525
www.nsmfc.ca

Richmond Administration Building

Yarmouth District Administration Building

Market Conditions 2011–12

THE CORPORATION ISSUED two pooled debenture issues in 2011–12. The all-in costs of funds to our clients are detailed below.

The global economy suffered a major setback during 2011 with real Gross Domestic Product (GDP) growth falling to an estimated 3.9%, down from the increase of 5.3% in the recovery in 2010, according to the International Monetary Fund (IMF). The pace of the recovery across economies was uneven, with the advanced economies expanding by an estimated 1.6% and emerging market and developing economies growing by 6.2%. The IMF expects global economic growth to drop to about 3.5% in 2012 due to weak activity during the second half of 2011 and the first half of 2012.

The European sovereign debt crisis continued throughout the 2011–2012 fiscal year in spite of the adoption of the commitment of European Union members to deal with their deficits and debt, and the provision of liquidity by the European Central Bank to maintain the viability of the European banking system and decrease pressure on sovereign bonds yields. Throughout the year there was increased uncertainty about the potential for Greece to exit from the Euro area or a fragmentation of the monetary union. This uncertainty led to some flight-to-safety in capital markets, in particular to the government bonds of Germany, the United States and Canada.

In the United States, there was improved economic activity in the second half of 2011; however, the United States economy only managed real GDP growth of 1.8% in calendar year 2011. The United States employment situation appears to have entered a long period of slow progress. Employment in the United States remains 5 million below the peak reached at the beginning of 2008, and only 3.8 million above the recent low in early 2010. The Federal Reserve Board has a "dual mandate", the key objectives for monetary policy being maximum employment and stable prices. As such, the employment situation in the United States suggests that low administered interest rates and quantitative easing measures may be in effect for some time to come.

Canada initially posted a strong recovery from the recession of 2009, growing real GDP by 3.2% in 2010. Real GDP in 2011 grew at a slower pace of 2.4%. Most of the economic growth in 2011 occurred in the third quarter with an annualized growth of 4.5%, well above the decline of 1% in the second quarter and the 3.6% annualized rate for the first quarter. The Canadian economy ended the year at a slower pace, with an annualized rate of 1.9% for the fourth quarter. Canada's economy also advanced at a rate of 1.9% in the first quarter of 2012, matching the United States growth for that quarter. Canada's growth in 2011 was spread across a number of sectors with mining/oil/gas, utilities, and construction leading the national average. Manufacturing and agriculture/forestry/fishing lagged behind the other goods-producing sectors in 2011. Growth in Canada in the first quarter of 2012 continued to be supported by increased business investment, particularly a pick-up in residential investment

INTEREST RATES

Interest rates in Canada and the United States fell during the 2008–2009 credit crisis and European crisis in late 2010, and continued to fall even further in late 2011 and the first part of 2012. The Bank of Canada has held administered interest rates at 1% since September 2010, stating that while global economic conditions and conditions in Canada are improving, the risk remained elevated due to sovereign-debt issues and supply shocks from rapidly rising commodity prices.

While both the spring and fall 2011 Municipal Finance Corporation debt issues were 1 to 15 year serial debentures, the 10-year sector continues to provide an indication of the changes in yields on these serial debenture issues. Over fiscal year 2010–2011, the Canada 10-year bond yield ranged from a low of 2.11% in mid-December 2011 to a high of 3.49% in early April 2011, and averaged 2.46% over the entire fiscal year. The all-in yield for the 2011 spring issue was 3.73%, relatively high compared to the fall issue in 2010, as the Government of Canada 10-year bond yield was above the average for the year at 3.18%. The fall issue had an all-in yield of 3.07%, a record low all-in interest cost for the Municipal Finance Corporation. In large part, the low yield on the fall issue was due to very low Government of Canada bond yields – 2.30% in the 10-year term, partially offset by a higher Nova Scotia provincial 10-year credit spread at 104.5 basis points compared to 76 basis points in the spring issue. The all-in cost of borrowing for the Municipal Finance Corporation remained attractive throughout the fiscal year by historical standards.

Spring Issue – settled May 30, 2011		Fall Issue – settled November 9, 2011	
5 years	2.89%	5 years	2.18%
10 years	3.68%	10 years	3.03%
15 years	4.12%	15 years	3.53%
20 years	4.32%	20 years	3.74%
All-in costs	3.87%	All-in cost	3.20%

Directors' Report

THE NOVA SCOTIA Municipal Finance Corporation plans its programs and services in accordance with the needs of its clients. The Corporation must ensure that it has ready access to capital markets and that it has the financial and administrative capacity to respond to local governments' demand for capital infrastructure financing. In order to ensure that the Corporation meets the demand for capital infrastructure financing, the Corporation's Board of Directors approves a Business Plan on an annual basis.

Business planning is an evolving process. Outcomes, measures, and indicators are evaluated during the course of the year for effectiveness and responsiveness to the Corporation's long-term strategic vision. Through the evaluation process, outcomes and measures may be changed to ensure that they are within the Corporation's area of responsibility, the Corporation can influence the outcome, and the Corporation's performance can be measured.

The strategic goals of the Corporation are supported by the operational priorities. The operational context for the Corporation's activities is strongly influenced by the ability to:

- Identify its clients' needs and respond to them
- Be well-informed of developments in local government capital finance
- Maintain financial self-sufficiency

The Annual Report reflects the Corporation's results as measured against the 2011–12 Business Plan. Along with measuring the longer-term strategic goals of the Corporation, operational results are included, which are important in ensuring that the Corporation can meet its priorities and goals.

AUDIT COMMITTEE

The Audit Committee was established in 2009–10 in response to a recommendation of the Auditor General, to assist the Board of Directors of the Corporation in fulfilling its oversight responsibilities related to the quality and integrity of financial reporting. The Corporation's Audit Committee ensures more accountability and transparency. Some of the responsibilities of the Audit Committee include reviewing financial reports and annual statements, reviewing financial and accounting policies, and reviewing and assessing both risk and internal controls.

The Audit Committee must be comprised of at least two members, who must be Board Members (excluding the Chair) of the Corporation. The Audit Committee may include additional members, who will be recommended by the Association of Municipal Administrators of Nova Scotia.

As of March 31, 2012, the Audit Committee is comprised of:

Marc Britney
Municipal Finance Corporation Board Member
Union of Nova Scotia Municipalities Representative
Councillor, Town of Middleton

Keith Hunter
Municipal Finance Corporation Board Member
Union of Nova Scotia Municipalities Representative
Warden, Municipality of the County of Cumberland

Melony Robinson
Director of Finance
Town of Annapolis Royal

Town of New Glasgow, wind turbine foundation

Town of New Glasgow, wind turbine

BUSINESS PLAN AND STRATEGIC GOALS

	Strategic Goal 1 To provide capital infrastructure financing to our clients at the lowest available cost, within acceptable risk parameters, to meet their particular debt structure and timing needs.	Strategic Goal 2 To ensure access to capital markets through prudent management of all financial aspects of the Corporation, including credit risk and asset/liability management.	Strategic Goal 3 To help build financial management knowledge in municipalities and promote municipal capital project planning and financing.
Outcome	Provide the lowest available cost of financing to clients in a timely manner	Ensure that a sustainable source of funding is available to clients to ensure the operational viability of the Corporation	Client use of the Debt Affordability Model; client use of the Financial Management Best Practices; increased overall municipal finance knowledge among municipalities; increased knowledge and uptake of the Corporation programs and services
Measures	• Percentage of clients satisfied with the timing and processing of debenture issues • Percentage of clients that agree the debenture terms and structure are flexible enough to meet their needs • Quality of credit loans • Pricing received from lead managers in relationship to the Province of Nova Scotia's cost of funds	Client default rates; match assets and liabilities	Percentage of municipal clients using the Debt Affordability Model and the Financial Management Best Practices; attendance at Corporation sponsored Municipal Finance Workshops; number of tools used to promote programs and services effectively
Results in 2011–12	• 70% of clients were satisfied with the timing and processing of debenture issues [1] • 85% of clients agreed that the debenture terms and structure are flexible enough to meet their needs [2] • Procedures ensure creditworthiness of loans • Provincial guarantee allows the Corporation to price off the Province of Nova Scotia spread	• 0% default rate • Assets were closely matched to term and timing	• 25% of clients used the Debt Affordability Model [5] • 13% of clients used the Financial Management Best Practices [6] • 75% of capacity attended workshops in 2010-11 • Increased communications through listserv emails, mail, and built a new website
Targets for 2012–13	• 80% client satisfaction rate with the timing and processing of debenture issues [3] • 95% client satisfaction rate with the debenture terms and structure flexibility • Regular review of loan procedures [4] • Maintain credit enhancement through access to the provincial guarantee	• 0% default rate • Maintain matching strategy • Update Corporation's risk management framework	• 35% of clients using the Debt Affordability Model • 20% of clients using the Financial Management Best Practices • 90% of capacity attended workshops • Increase by two or update the avenues to promote programs and services
Outputs 2011–12	• Issued 38 loans to 29 municipalities, and 5 municipal enterprises • Issued $73.0 million in debentures and on-loaned a similar amount to clients • Administered $4.3 million in short-term financing pending issuance of a debenture • Administered $733.1 million in outstanding loans to municipalities and hospitals	• Reviewed all municipal requests with Service Nova Scotia and Municipal Relations to ensure that the loans to municipalities did not pose a credit risk to the Corporation • Managed assets and liabilities of the Corporation to mitigate risk and ensured that the Corporation did not incur any negative carrying costs • Managed the administration budget of the Corporation prudently and ended the fiscal year with a net loss of $118,210 and a reserve fund balance of $6.26 million	• Continued promotion of the Corporation's Debt Affordability Model to municipalities • Encouraged the implementation of recommended practices of the Financial Management and Capacity Building Committee in Nova Scotia municipalities • Sponsored a finance professional to attend the annual Government Finance Officers Association Conference in San Antonio in 2011 • Supported and participated in the Association of Municipal Administrators of Nova Scotia's Municipal Finance Officers Forum • In cooperation with Dalhousie University, sponsored workshops on municipal finance for elected and administrative officials • Created a new and more user friendly website

[1] Data collected from the *2011 Client Satisfaction Survey* conducted by the Nova Scotia Municipal Finance Corporation
[2] Data collected from the *2011 Client Satisfaction Survey* conducted by the Nova Scotia Municipal Finance Corporation
[3] Ibid
[4] Ibid
[5] Data collected from the *2011 Client Satisfaction Survey* conducted by the Nova Scotia Municipal Finance Corporation
[6] Ibid

Overview of Loan Portfolio

LOANS TO MUNICIPALITIES, SCHOOL BOARDS, AND HOSPITALS

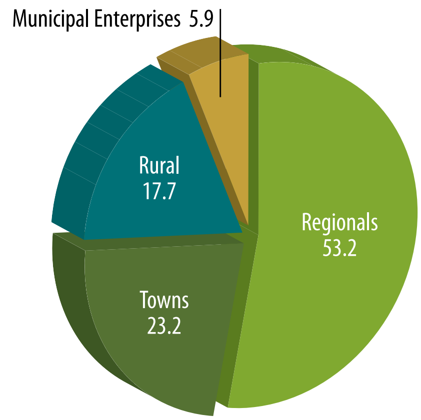
The Corporation's loan portfolio consists of loans to municipalities and municipal enterprises, school boards, and hospitals/health authorities. Municipal enterprises are serviced or guaranteed by Nova Scotia municipalities, school boards are supported by the Province of Nova Scotia, and hospitals/health authorities are also supported by the Province. There are no arrears.

Service Nova Scotia and Municipal Relations perform the credit checks using debt policy guidelines approved by the Minister. The Minister approves all capital-borrowing requests by municipalities and municipal enterprises. The Corporation's interest rate risk is minimized by matching the interest rates, term, and features of its debenture issues with those on the loans it makes to its clients.

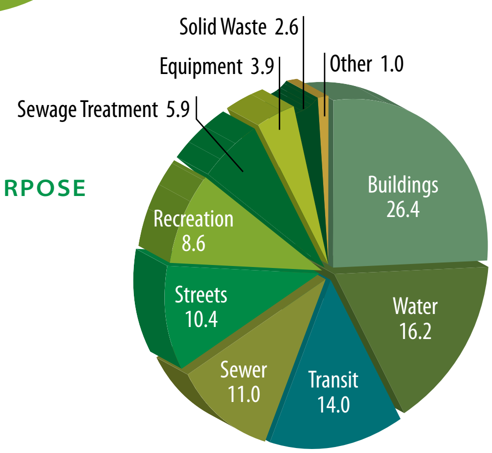
During the year, long-term loans totalling $73 million were made to 29 municipalities, and 5 municipal enterprises. They were used for the purposes as shown below.

LOANS MADE DURING THE YEAR

BY JURISDICTION



BY PURPOSE



SCHEDULE OF NEW LOANS

Purpose	Regional	Town	Rural	Municipal Enterprises	Total	Percent
Water	—	6,101,295	2,130,000	3,573,000	11,804,295	16.2%
Sewer	4,746,589	1,655,275	1,608,000	—	8,009,864	11.0%
Streets	4,729,891	2,888,261	—	—	7,618,152	10.4%
Buildings	16,068,556	1,180,142	1,318,330	710,100	19,277,128	26.4%
Equipment	1,897,128	921,525	—	—	2,818,653	3.9%
Recreation	1,812,845	1,661,957	2,832,000	—	6,306,802	8.6%
Solid Waste	238,453	260,000	1,355,000	59,895	1,913,348	2.6%
Sewage Treatment	—	843,869	3,424,728	—	4,268,597	5.9%
Transit	9,302,538	922,400	—	—	10,224,938	14.0%
Other	—	463,474	270,000	—	733,474	1.0%
Totals	38,796,000	16,898,198	12,938,058	4,342,995	72,975,251	
Percent	53.2%	23.2%	17.7%	5.9%	100%	

Overview of Loan Portfolio

YEAR ENDED MARCH 31, 2012

The accumulated loans outstanding at March 31, 2012 amounted to $733.1 million, comprising $725.1 million to 70 municipalities and enterprises and $8.0 million to two district health authorities.

The table at right shows the total loans outstanding at the end of each of the last 10 fiscal years, broken down by category.

OUTSTANDING BORROWING PROGRAM

Funds totalling $73.0 million for loans to municipalities and municipal enterprises were raised through two issues in the Canadian domestic market. The two issues were placed privately with the Province of Nova Scotia, which purchased a $30.3 million issue in May 2011 and a $41.0 million issue in November 2011. Interest rate coupons ranged from 1.219% to 4.597%.

TEN-YEAR HISTORY OF LOANS TO MUNICIPALITIES, SCHOOL BOARDS, AND HOSPITALS

New Long-Term Loans During the Year: Fiscal year ending at March 31 ($millions)

Year	Municipal	Hospitals	School Boards	Total
2003	84.6	11.0	—	95.6
2004	73.1	—	—	73.1
2005	167.7	—	—	167.7
2006	112.0	—	—	112.0
2007	108.3	—	—	108.3
2008	139.5	0.5	—	140.0
2009	110.9	—	—	110.9
2010	114.2	—	—	114.2
2011	119.0	—	—	119.0
2012	73.0	—	—	73.0

Loans Outstanding at Year End: Fiscal year ending March 31 ($millions)

Year	Municipal	Hospitals	School Boards	Total
2003	469.7	11.0	2.2	482.9
2004	481.5	10.8	0.7	493.0
2005	579.5	10.5	0.3	590.3
2006	611.1	10.2	—	621.3
2007	632.4	9.8	—	642.2
2008	679.6	9.9	—	689.5
2009	700.3	9.5	—	709.8
2010	719.5	9.0	—	728.5
2011	748.1	8.5	—	756.6
2012	725.1	8.0	—	733.1

Town of Lunenburg, Town Hall restoration

Town of Wolfville, aerial ladder firetruck

SCHEDULE OF OUTSTANDING LOANS YEAR ENDING MARCH 31, 2012

By Jurisdiction	Principal March 31/11	New Loans	Principal Repaid	Principal March 31/12
Regional Municipalities				
Halifax	$336,637,088	$24,266,000	$(45,825,506)	$315,077,582
Cape Breton	129,861,536	14,530,000	(15,435,573)	128,955,963
Queens	4,256,511	—	(802,246)	3,454,265
TOTAL REGIONAL MUNICIPALITIES	**470,755,135**	**38,796,000**	**(62,063,325)**	**447,487,810**
District Health Authorities				
TOTAL DISTRICT HEALTH AUTHORITIES	**8,530,594**	—	**(529,702)**	**8,000,892**
Towns				
Amherst	6,285,068	1,065,050	(701,113)	6,649,005
Annapolis Royal	307,200	—	(99,300)	207,900
Antigonish	3,366,500	900,000	(238,500)	4,028,000
Berwick	2,088,173	544,100	(205,043)	2,427,230
Bridgetown	1,040,557	1,585,067	(283,267)	2,342,357
Bridgewater	7,281,600	721,000	(1,032,300)	6,970,300
Canso	805,924	—	(65,252)	740,672
Clark's Harbour	260,000	—	(20,000)	240,000
Digby	1,249,712	486,924	(191,874)	1,544,762
Hantsport	2,361,685	—	(205,883)	2,155,802
Kentville	7,566,310	2,561,000	(2,178,670)	7,948,640
Lockeport	337,754	—	(59,395)	278,359
Lunenburg	2,287,000	1,123,000	(204,700)	3,205,300
Mahone Bay	889,200	—	(61,400)	827,800
Middleton	689,229	398,000	(139,903)	947,326
Mulgrave	283,000	—	(56,500)	226,500
New Glasgow	7,301,873	1,520,200	(703,050)	8,119,023
Oxford	1,243,276	1,183,500	(870,276)	1,556,500
Parrsboro	8.686	—	(8,686)	—
Pictou	3,618,000	442,811	(258,233)	3,802,578
Port Hawkesbury	7,119,765	1,200,000	(618,545)	7,701,220
Shelburne	1,084,330	1,015,046	(147,094)	1,952,282
Springhill	4,962,027	—	(776,563)	4,185,464
Stellarton	13,296,643	—	(680,817)	12,615,826
Stewiacke	2,351,348	—	(192,936)	2,158,412
Trenton	27,450	200,000	(4,575)	222,875
Truro	12,662,000	1,332,000	(905,000)	13,089,000
Westville	1,481,394	272,500	(151,603)	1,602,291
Windsor	8,117,320	—	(491,993)	7,625,327
Wolfville	3,260,742	348,000	(671,642)	2,937,100
Yarmouth	5,163,347	0	(698,340)	4,465,007
TOTAL TOWNS	**108,797,113**	**16,898,198**	**(12,922,453)**	**112,772,858**

SCHEDULE OF OUTSTANDING LOANS YEAR ENDING MARCH 31, 2012

By Jurisdiction	Principal March 31/11	New Loans	Principal Repaid	Principal March 31/12
Rural Municipalities				
Annapolis	3,645,500	0	(417,500)	3,228,000
Antigonish	2,769,697	2,766,330	(744,897)	4,791,130
Argyle	0	1,272,728	0	1,272,728
Barrington	972,866	0	(145,168)	827,698
Chester	5,590,131	1,393,000	(735,150)	6,247,981
Clare	2,725,000	0	(243,750)	2,481,250
Colchester	10,606,981	2,832,000	(1,677,076)	11,761,905
Cumberland	929,927	0	(123,277)	806,650
Guysborough	1,790,600	0	(127,900)	1,662,700
Hants East	28,713,689	615,000	(1,374,400)	27,954,289
Hants West	2,982,000	565,000	(143,040)	3,403,960
Inverness	1,400,000	1,000,000	(200,000)	2,200,000
Kings	7,960,883	2,355,000	(1,353,324)	8,962,559
Lunenburg	14,844,579	0	(1,043,248)	13,801,331
Pictou	46,406	0	(46,406)	0
Richmond	3,038,061	0	(364,979)	2,673,082
Shelburne	224,582	0	(83,891)	140,691
Victoria	951,000	0	(133,500)	817,500
Yarmouth	3,182,500	0	(142,500)	3,040,000
TOTAL	**92,374,402**	**12,799,058**	**(9,100,006)**	**96,073,454**
Villages				
Baddeck	792,609	0	(67,518)	725,091
Bible Hill	108,000	0	(36,000)	72,000
Chester	77,000	0	(11,000)	66,000
Kingston	248,000	0	(56,000)	192,000
Lawrencetown	68,000	0	(8,500)	59,500
St. Peter's	298,233	139,000	(32,800)	404,433
Port Williams	357,000	0	(51,000)	306,000
Westport	35,000	0	(5,000)	30,000
Weymouth	122,500	0	(17,500)	105,000
TOTAL RURAL MUNICIPALITIES	**2,106,342**	**139,000**	**(285,318)**	**1,960,024**
Municipal Enterprises				
Bridgewater Public Service Commission	3,546,500	2,000,000	(2,374,500)	3,172,000
Digby Area Recreation	210,000	0	(30,000)	180,000
Digby Housing Corporation	493,500	0	(493,500)	0
Glen Haven Manor	759,100	710,100	(759,100)	710,100
Halifax Regional Water Commission	65,371,600	1,500,000	(7,409,130)	59,462,470
Lunenburg Home for Special Care	676,980	0	(53,530)	623,450
R.K. MacDonald	1,331,560	0	(286,245)	1,045,315
Seaview Manor	171,500	0	(85,750)	85,750
St. Peter's – Sampsonville Water Utility	1,439,400	73,000	(50,800)	1,461,600
Valley Waste	0	59,895	0	59,895
Villa Acadienne	65,200	0	(65,200)	0
TOTAL MUNICIPAL ENTERPRISES	**74,065,340**	**4,342,995**	**(11,607,755)**	**66,800,580**
TOTAL LOANS	756,628,926	72,975,251	96,508,559	733,095,618

Other Programs

IN ADDITION TO the Corporation's long-term and short-term borrowing programs, the Corporation also offers financial management capacity building programs to assist municipalities with long-term financial planning.

BORROWING PROGRAMS

The Board of Directors has long supported a short-term borrowing program for its clients. The Corporation's reserve fund is used to provide short-term loans to its clients that have completed their capital project and are awaiting participation in the debenture issue. Short-term loans are available for a period of not greater than one year; interest is charged at the Bank of Montreal's prime lending rate less 1 percent. The Corporation loaned $4.3 million to 4 municipalities for various municipal capital related projects during 2011–12.

FINANCIAL MANAGEMENT BEST PRACTICES

The Corporation and the Association of Municipal Administrators of Nova Scotia established a joint committee in 2003 with the goal of developing financial management best practices for use by municipalities in Nova Scotia. This Committee has developed 32 best practices. These best practices are taken from the Government Finance Officers Association, and the Committee has tailored each best practice to be easily implemented by Nova Scotia municipalities.

LONG-TERM FINANCIAL PLANNING

The Corporation developed a Debt Affordability Model to assist municipalities in capital planning and debt management. Several municipalities are currently using the model. In 2011–12, staff improved the Model with various enhancements based on the feedback from municipalities.

MUNICIPAL FINANCE TRAINING AND CAPACITY BUILDING PROGRAM

The purpose of the Municipal Finance Training and Capacity Building Program is:

- To enhance the quality of municipal financial services provided by local government finance professionals in Nova Scotia by exposing them to current issues, best practices, and trends in Canadian and international local government finance
- To encourage the development of a network of municipal finance specialists in Nova Scotia for the purpose of sharing knowledge and best practices
- To increase elected and non-finance administration officials' knowledge and understanding of municipal finance.

In order to achieve the goals established in the Municipal Finance Training and Capacity Building Program, the Corporation offered two programs in 2011–12. The Corporation sponsored a financial professional working in municipal government in Nova Scotia to attend the annual Government Finance Officers Association Conference. This international conference is dedicated to the development of financial excellence in local government through the use of best practices and bench-marking.

Furthermore, the Corporation hired Professor Jack Novack, faculty member with the Faculty of Continuing Education at Dalhousie University. Professor Novack was hired to conduct four one-day workshops geared towards educating municipal staff and Councillors who were not overly familiar with municipal finance. The surveys conducted at the end of each session indicated that they were extremely successful. Most responses included thirst for more workshops focusing on more municipal finance and budget planning topics.

DALHOUSIE SCHOOL OF PUBLIC ADMINISTRATION INTERNSHIP PROGRAM

Every summer, the Corporation hires a Master of Public Administration student to lead a special project. The student conducts research, works closely with municipal and provincial stakeholders, and writes a final project report that will include recommendations and best practices regarding the project.

In the summer of 2011, Shira Babins worked on an extremely important research project. The research project focused on examining the current capital borrowing process for municipalities in Nova Scotia. This project involved looking at the municipal long-term debt approval process to determine if any gaps existed in the current debt approval process. As a result of the research project, a series of recommendations were adopted by Service Nova Scotia and Municipal Relations to improve the capital borrowing process for both the Corporation and municipalities.

Financial Statements of
Nova Scotia Municipal Finance Corporation

Years ended March 31, 2012 and 2011

Management's Responsibility for Financial Statements

THE FINANCIAL STATEMENTS of the Nova Scotia Municipal Finance Corporation are the responsibility of management, and have been prepared in accordance with Public Sector Accounting Board and Canadian Institute of Chartered Accountants accounting principles, which are generally accepted in Canada, applied on a basis consistent with that of the preceding year. The financial information presented elsewhere in the Annual Report is consistent with the financial statements and the underlying information from which these statements were prepared.

The financial statements have been examined independently by the external auditors, KPMG LLP, whose responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Generally Accepted Accounting Principles. The Auditor's Report, attached to the financial statements, outlines the scope of their examination and contains their opinion.

The Board of Directors has approved the financial statements and all information in the Annual Report. The external auditors have full and free access to the Board, with and without the presence of management, to discuss auditing, internal controls, accounting policy, and financial reporting matters.

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

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:

______________ Director

______________ Director

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.

Statements of Changes in Net Financial Assets

Years ended March 31, 2012 and 2011

	Budget	**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

Statements 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.

Notes to Financial Statements

Years ended March 31, 2012 and 2011

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.

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.

(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:

(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

Notes to Financial Statements

2. TRANSITIONAL ADJUSTMENTS continued

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.

(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.

Notes to Financial Statements

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.

4. DEBENTURES continued

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).

				March 31, 2012	March 31, 2011	April 1, 2010
Series	Date issued	Maturity date Calendar Year	Interest rate	Amortized cost of debt outstanding	Amortized cost of debt outstanding	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	July 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 5/11	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

Notes to Financial Statements

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

(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)

6. SUPPLEMENTAL CASH FLOW INFORMATION continued

(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.

(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

Statement – No Compensation to Disclose

Nova Scotia Municipal Finance Corporation

To the best of my knowledge and belief, no employees of the above organization were paid compensation as defined in the Public Sector Compensation Disclosure Act, in the fiscal year 2012, of $100,000 or more.

Bob Houlihan
Chief Executive Officer

July 18, 2012