NOVA SCOTIA
MUNICIPAL FINANCE CORPORATION

38TH ANNUAL ACCOUNTABILITY REPORT

Since 1979, the Nova Scotia Municipal Finance Corporation has worked closely with clients to build healthy and vibrant communities. Our mission is to provide capital infrastructure financing at the lowest available cost, within acceptable risk parameters, and to provide financial management advice and assistance to clients.

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ACCOUNTABILITY STATEMENT

The Accountability Report of the Nova Scotia Municipal Finance Corporation for the year ended March 31, 2018 is prepared pursuant to the Finance Act and government policies and guidelines. These authorities require the reporting of outcomes against the Nova Scotia Municipal Finance Corporation Business Plan for the fiscal year just ended. The reporting of the Nova Scotia Municipal Finance Corporation outcomes necessarily includes estimates, judgments and opinions by Nova Scotia Municipal Finance Corporation management.

We acknowledge that this Accountability Report is the responsibility of Nova Scotia Municipal Finance Corporation management. The report is, to the extent possible, a complete and accurate representation of outcomes relative to the goals and priorities set out in the Nova Scotia Municipal Finance Corporation 2017-2018 Statement of Business Plan.

Chuck Porter, Minister

Kelliann Dean, Chair

Paul Wills, CEO

MESSAGE FROM THE CHAIR AND BOARD OF DIRECTORS

As Chair of the Nova Scotia Municipal Finance Corporation (NSMFC), and on behalf of the Board of Directors, it is my pleasure to present the Corporation's 38th Annual Report for the 2017-2018 fiscal year.

Since 1979, the Corporation has worked closely with clients to build healthy and vibrant communities. Our mission is to provide capital infrastructure financing at the lowest available cost, within acceptable risk parameters, and to provide financial management advice and assistance to clients. The Corporation's work touches the lives of all Nova Scotians. Over its 38-year history, it has helped municipalities to make significant investments in the infrastructure we all use and rely on, from fire services equipment to improve public safety, to wellness centres that support healthy communities, to facilities that provide clean drinking water for thousands of residents. By pooling administration costs and offering rates below what lenders can offer, the Corporation saves taxpayers money as well.

Ensuring municipalities, both urban and rural, have modern infrastructure helps Nova Scotia to remain competitive and attract and retain residents and businesses. Though this mandate has not changed since the Corporation's inception, the means through which it is achieved continues to evolve to reflect changing conditions.

Business planning and reporting is an evolving process. Measures are established and evaluated during the year to assess the effectiveness of the Corporation's programs and services in meeting the Corporation's long-term strategic goals:

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

During the year, we made steady progress towards these goals.

The Corporation strives to provide the lowest possible long-term and short-term interest rates to municipalities. In 2017-2018, the Corporation achieved this goal through its two annual debenture issuances: one for $35.1 million and one for $48.3 million. This represents total long-term loan activity of $83.4 million during the fiscal year. Moreover, our "all-in" costs were below the variable prime interest rate, representing tremendous savings to municipal participants. The Corporation also provided short-term loans to two municipalities and one municipal enterprise under its short-term loan program totaling $6,671,750 at interest rates of 2.042%, 2.16125%, and 2.13375% respectively. This program helps municipalities to access short-term funding until they can participate in the next debenture issue; additionally, it allows for the Corporation to invest and earn more interest on its reserve fund, which was originally used to finance this program.

Through the Corporation's Mentoring Program, newly hired Municipal Directors/Managers of Finance continue to benefit from retired municipal Directors' of Finance knowledge and experiences in understanding their roles in municipal government. In 2017-2018, three municipal units took advantage of this free program with overwhelming gratitude for the support they received.

Over the past year, the Corporation implemented a High Interest Savings Account Program to provide municipalities the opportunity to earn a higher rate of return on funds (Capital Reserves, Gas Tax, Operating Reserves) placed in this program. During 2017-2018, one municipal unit placed funds in this program earning double the interest they would have earned otherwise. The Corporation does not charge a fee to participate in the program, allowing municipalities to earn all the interest they are entitled to and helping them increase reserves balances.

The Corporation continues to promote the use of its Financial Management Best Practices. During 2017-2018 three municipalities have begun to implement some of the best practices to help strengthen their processes. Staff at the Corporation provide support in developing these practices, free of charge, to ensure the best practice components are within the policies.

The Debt Affordability Model continues to be a tool that can help municipalities plan for future capital needs while ensuring the long-term sustainability of resources. In 2017-2018, the Corporation assisted five municipalities with this model and provided training to both staff and councils on how the model works. Since 2014, 34 municipalities have used the model for various purposes.

Nova Scotians are at the heart of everything we do at the Corporation. That community focus is reflected in our operations and long-term goals. Together, along with our dedicated staff and municipal partners, we are making a difference in our communities and in our neighbourhoods.

The Board would like to extend its appreciation by thanking the staff of the Corporation, and the staff of the provincial Departments of Municipal Affairs, Finance and Treasury Board, and Justice for their advice and assistance throughout the year.

Kelliann Dean, Chair

"We have taken advantage of the High Interest Savings Account (HISA) offered by MFC. My calculations are that we will earn virtually double the rate of interest we are now receiving. I look forward to working with MFC, your assistance, so readily given and insightful, is very much appreciated." Jim Davis, *Chief Administrative Officer, Town of Mulgrave*

HOW THE CORPORATION FUNCTIONS

Authority

The 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 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, through a centralized borrowing authority and to provide advice and assistance to its clients regarding financial management. The Corporation fulfils its purpose through the issuance of pooled debentures. 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 Union of Nova Scotia Municipalities, Association of Municipal Administrators of Nova Scotia, the Department of Municipal Affairs, 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 consisting of two members who are senior provincial public servants, two members who are appointed upon the recommendation of the Union of Nova Scotia Municipalities, one member who is appointed from the community at large, and one member who is appointed upon the recommendation of the Association of Municipal Administrators of Nova Scotia.

The Corporation is completely self-funded. The Minister of the Department of Municipal Afairs is required by legislation to approve the annual administration budget. The Corporation levies fees on loans made to its clients to help offset the administrative expenses of the Corporation.

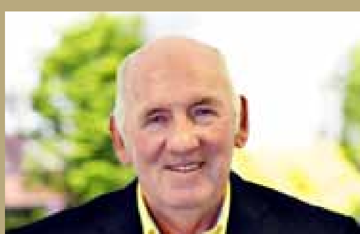
Support staff and resources of the provincial Departments of Finance and Treasury Board and Municipal Affairs have been provided to the Corporation. The Corporation also contracts with the Department of Justice for the provision of legal services. The advice and assistance given by all three provincial departments is a valuable contribution to the operations of the Corporation.

DIRECTORS, OFFICERS AND EMPLOYEES OF THE CORPORATION


Kelliann Dean, Chair
Deputy Minister, Department of Municipal Affairs


Geoff Gatien, Vice Chair, CPA, CA
Associate Deputy Minister and Controller, Department of Finance and Treasury Board


Bernie Murphy
Councillor, Town of Westville


George MacDonald
Councillor, Cape Breton Regional Municipality


Dawn Keizer, CPA, CA
Director of Finance, Town of Bridgewater


Neil Morley, CPA, CA
Member At Large
Ellershouse, Nova Scotia

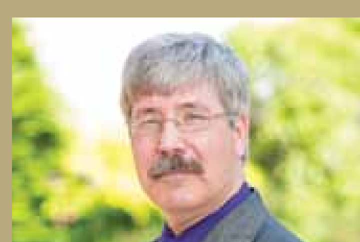

Chief Executive Officer and Treasurer **- Paul Wills,** CPA, CMA
Nova Scotia Municipal Finance Corporation


General Counsel **- Phil Reid**
Department of Justice


Ahmad Shahwan, CPA, CMA
Municipal Advisor, Department of Municipal Affairs


Assistant Treasurer **- Roy Spence**
Director, Liability Management and Treasury Services, Department of Finance and Treasury Board


Margo Horne
Administrative Assistant
Nova Scotia Municipal Finance Corporation


Bob Audoux, CPA, CGA
Manager, Financial Services
Nova Scotia Municipal Finance Corporation

CORPORATE GOVERNANCE

The financing of infrastructure projects worth millions of dollars makes it essential that the Corporation has rigorous and accountable governance structures and practices in place. The Corporation applies a high standard of corporate governance to ensure operational efficiency and accountability.

As a Crown Corporation, the Corporation's powers and responsibility is set out in the *Municipal Finance Corporation Act* (1979) and the Corporation is accountable to the Nova Scotia legislature through the Minister of the Department of Municipal Affairs.

The Corporation is governed by a Board of Directors and a Chief Executive Officer (CEO) appointed by the Governor-in-Council. The Board currently consists of six experienced and well-informed members. The Chair of the Board is traditionally the Deputy Minister for the Department of Municipal Affairs. The directors have a wide breadth of expertise and knowledge to carry out their fiduciary duties and uphold the interests of the organization.

The role of the Board is to provide governance, stewardship and to set the strategic management priorities for the Corporation. The Board approves the corporate objectives and regularly monitors financial and operational performance, risk, and accountability. The Board has established an Audit Committee for additional oversight as well. The roles and responsibilities of the Audit Committee are set out in the terms of reference.

As part of the Board's commitment to good governance, an annual business plan and accountability report are prepared in accordance with applicable legislation and guidelines from Finance and Treasury Board. Both are submitted to the Minister of Municipal Affairs as well as Finance and Treasury Board and posted on the Corporation's website.

The CEO is responsible for the operation of the organization and other functions as assigned by the Board of Directors. The CEO provides leadership to the Corporation's management and employees, and fosters a corporate culture that promotes engagement, consistent execution, proper diligence, and client service. A team comprised of two staff support the operations of the Corporation as well.

> "MFC's mentoring program provided a great base of knowledge to help navigate the unique environment of municipal government. Structured in a way that it covered all areas essential to the financial operation of a municipality, it also provided the flexibility to dive deeper into specific topics of interest. The eagerness of MFC's staff and mentor to share their knowledge and experience showed a commitment to ensuring new municipal finance employees develop to their full potential."
> Brian Luciano, *Manager of Finance, Town of Antigonish*

BUSINESS PLAN & STRATEGIC GOALS

Strategic Goal 1

To provide capital infrastructure financing to our clients at the lowest possible cost, within acceptable risk parameters, within their particular debt structure, so that their timing needs will be met.

Outcome

- Provide the lowest available cost of financing to clients in a timely manner

Measures

- Percentage of clients satisfied with the timing 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

Results in 2017-2018

- 97% of clients were satisfied with the timing of debenture issues[1]
- 97 % 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

Targets for 2018-19

- 97% client satisfaction rate with the timing of debenture issues
- 97% client satisfaction rate with the debenture terms and structure flexibility
- Regular review of loan procedures
- Maintaining credit enhancement through access to the provincial guarantee

Outputs

- Issued loans to 24 participants (20 munitipalities and 4 municipal enterprises)
- Issued $83.4 million in debentures and loaned a similar amount to clients
- Administered $7,004,450 in short-term financing pending issuance of a debenture, $332,700 of which was debentured in the spring issue.
- Administered $774.9 million in outstanding loans to municipalities and hospitals

[1] Data collected from the 2017 Client Satisfaction Survey conducted by the Nova Scotia Municipal Finance Corporation
[2] Ibid

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.

Outcome

- Ensure that a sustainable source of funding is available to clients to ensure the operational viabilty of the Corporation

Measure

- Client default rates
- Match assets and liabilities

Results in 2017-2018

- 0% default rate
- Assets were closely matched to term and timing

Target for 2018-2019

- Maintain 0% default rate
- Maintain matching strategy

Outputs

- Reviewed all municipal requests with Department of Municipal Affairs 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 to ensure that the Corporation did not incur any negative carrying costs
- Ended the fiscal year with a surplus of $14,762 due to lower loan volumns than expected
- Maintained a reserve fund balance of $6,605,546

Strategic Goal 3

To help build financial management knowledge in municipalities and promote municipal capital project planning and financing.

Outcome

- Client use of the Debt Affordability Model
- Client use of the Financial Management Best Practices
- Increased overall municipal finance knowledge among municipalities
- Increased knowledge of the Corporation's programs and services

Measures

- 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
- Attendance at Corporation Sponsored Association of Municipal Administrators of Nova Scotia (AMANS) finance modules

Results in 2017-2018

- 47% of clients using the Debt Affordability Model[3]
- 34% of clients using the Financial Management Best Practices[4]
- 60% of municipal units attended Municpal Finance Officers workshops in 2017
- 78% of clients are aware of the Corporation programs and services[5]
- 50% attendance of available space AMANS Financial Management Module for Managers
- 93% attendance of available space AMANS Financial Management Module for Elected Officials

Targets for 2018-2019

- 60% of clients using the Debt Affordability Model
- 50% of clients using the Financial Management Best Practices
- 80% of municipal units attend Municipal Finance Offices workshops
- 95% of clients are aware of the Corporation programs and services
- 75% attendance of available space at AMANS Financial Management Module for municipal staff
- 95% attendance of available space AMANS Financial Management Module for municipal councilors

Outputs

- Continued promoting the Corporation's Debt Affordability Model to municipalities
- Encouraged the implementation of recommended best practices of the Financial Management and Capacity Building Committee in Nova Scotia municipalities
- Sponsored one finance professional from the District of Barrington to attend the annual Government Finance Officers Association Conference in St Louis in 2018
- Sponsored and participated in Municipal Finance Officers forums at AMANS Spring and Fall Conferences
- Sponsored two finance modules provided by AMANS - Financial Management II: Policies, Processes and Control Systems for Managers; and Financial Management III: Financial Management for Elected Officials.
- Continue promoting the Corporation's Short Term Loan Program, High Interest Savings Account Program and the Mentoring Program to municipalities.

[3] Ibid [4] Ibid [5] Ibid

AUDIT COMMITTEE

The Audit Committee was established in 2009 - 2010 on 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. In addition to meeting the needs of the Corporation's clients through programs and services, the Corporation's Audit Committee ensures accountability and transparency. The Audit Committee reviews and assesses financial reports, financial and accounting policies, and 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. Currently the Audit Committee has an additional member recommended by the Association of Municipal Administrators of Nova Scotia.

The Audit Committee is comprised of:

Neil Morley, CPA, CA
Municipal Finance Corporation Board Member
Member-at-Large, and Committee Chair

Dawn Keizer, CPA, CA
Municipal Finance Corporation Board Member
Director of Finance
Town of Bridgewater

Kim Ramsay, CPA, CMA
Association of Municipal Administrators of Nova Scotia Representative
Deputy Chief Administrative Officer
District of East Hants

Interest Rates

Since 2014 advanced economies have experienced a continued, if at times halting, recovery from the recessions in the aftermath of the 2008–09 global financial crisis and the 2011–12 Euroarea sovereign debt crisis. Accommodative monetary policy and the gradual fading of crisis-related setbacks have been pivotal in helping advanced economies attain above-potential growth and reduced unemployment.

Interest rates in Canada and the United States started the 2017-18 fiscal year at low levels, and generally rose throughout the fiscal year. The Province of Nova Scotia's 10-year average cost of funds in the 2017-18 fiscal year was 2.67%, compared to an average of 2.41% in 2016-17. In large part, the Province's low cost of funds reflects very low Government of Canada interest rates.

After seven years of the most accommodative monetary policy in US history, the Federal Reserve Board, in mid-December 2015 approved a quarter-point increase in its target funds rate. The decision marked the first increase since the increase to 5.25% in June 2006. The Federal Reserve Board has now increased the Federal Funds Rate seven times since the Global Financial Crisis, including three times in the 2017-18 fiscal year. The Federal Reserve Board is expected to increase administered interest rates in the upcoming months.

The Bank of Canada, like the Federal Reserve Board, started a process of returning the overnight rate to more normal levels after numerous years of accommodative monetary policies, such as low interest rates, to support economic growth. The overnight rate is the interest rate at which major financial institutions borrow and lend one-day funds among themselves; the Bank of Canada sets a target level for that rate. In fiscal year 2017-18, the Bank of Canada increased the overnight rate by a total of 75 basis points over three interest rate announcements, thereby increasing the overnight rate to 1.25%.

Since 2001, the Bank of Canada's main measure of core inflation has been "core" consumer price index (CPIX) inflation, which excludes eight of the most volatile components of the CPI and adjusts the remainder for the effect of changes in indirect taxes. Following a review of a wide selection of measures of core inflation in 2015, the Bank of Canada chose three preferred measures of core inflation: (i) a measure based on a trimmed mean (CPI-trim); (ii) a measure based on the weighted median (CPI-median); (iii) a measure based on the common component (CPI-common).

Canadian inflation is close to the Bank of Canada's target level. Both the All-Items Consumer Price Index (CPI) inflation and the Bank of Canada's preferred measures of core inflation have recently increased to about 2%. While some temporary factors are putting upward and downward pressures on inflation in Canada, the Bank of Canada expects the upward pressures to persist longer than the downward pressures. The Bank of Canada forecasts CPI inflation to be modestly higher in 2018, but to still near the 2% target later in 2018. For most of the past five years the Bank of Canada's preferred measures for the core rate of CPI inflation have been trending under the mid-point of the Bank of Canada's target range of 1% to 3%. Over the 2017-18 fiscal year, the All-Items CPI inflation averaged 1.6%, after reaching a low of 1.0% in June 2017, and rising to 2.3% in March 2018, the latter largely because of higher consumer energy prices.

Long-term interest rates fell to historic lows during the 2017-18 fiscal year. At the pricing of the Spring MFC issue, the 10-year Canada bond yield was 1.45%, up from the Spring 2016 issue yield of 1.55%, and in the Fall MFC issue that rate was 2.06%, up from the 2016 yield of 1.14%. The 10-year Canada bond yield averaged 1.91% over the 2017-18 fiscal year, up from 1.38% over the 2016-17 fiscal year, and 1.47% in the 2015-16 fiscal year. During the 2017-18 fiscal year, 10-year Canada yields dropped to a low of 1.36% in June 2017, and a high of 2.41% in February 2018.

Spring Issue (settled May 9, 2017)	
5 years	1.83
10 years	2.32
15 years	2.73
20 years	2.93
All-in cost	2.82

Fall Issue (settled November 9, 2017)	
5 years	2.44
10 years	2.84
15 years	3.12
20 years	3.24
All-in cost	2.98

OVERVIEW OF LOAN PORTFOLIO

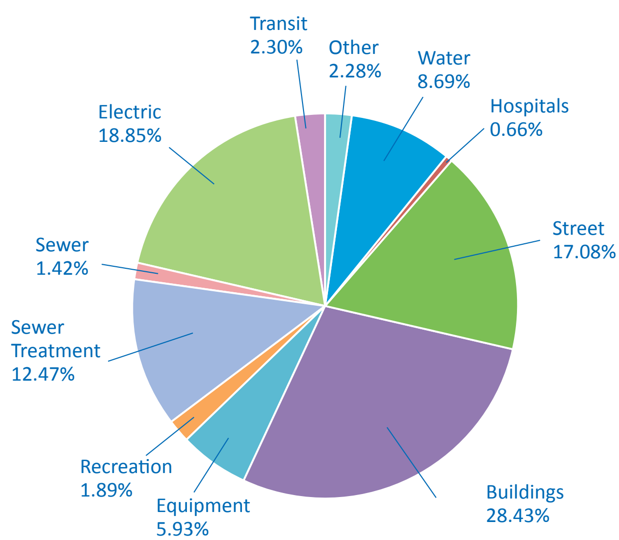
Loans to Municipalities, School Boards, and Hospitals

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

The Department of Municipal Affairs performs credit checks using debt policy guidelines approved by the Minister. Municipalities and municipal enterprises must receive approval from the Minister for capital borrowing. 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 totaling $83.4 million were made to 20 municipalities, 2 water commissions and 2 municipal enterprises. They were used for the purposes as shown below.

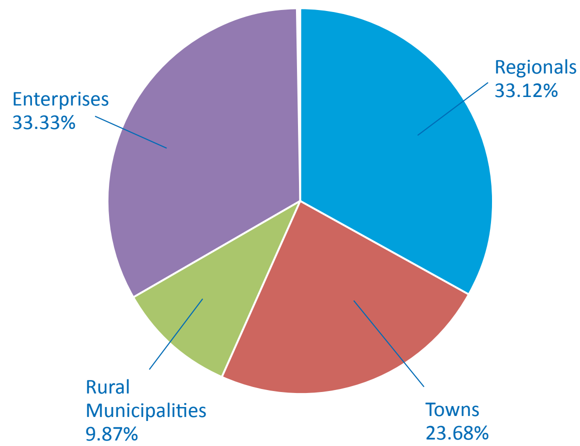
2017–2018 Debentures by Type



"The Council of the Municipality of the District of Lunenburg identified a 5-Year Financial Strategy as a Strategic Priority. Staff determined that the Debt Affordability Model provided by the Municipal Finance Corporation could be used to meet this need. In February 2018, Municipal Council accepted a modified Debt Affordability Model as its Five-Year Financial Strategy; staff modified the model to include the addition of a reserves forecasting component.

The Municipal Finance Corporation provided support to Municipal staff in setting up the model and was an invaluable resource in helping to convey its uses to Municipal Council." Elana Wentzell, *Director of Finance, District of Lunenburg*

2017 -2018 Loans by Jurisdiction



Purpose	Regionals	Towns	Municipality	Enterprises	Total	Percent
Water	$ -	$2,617,500	$175,000	$4,456,000	$7,248,500	8.69%
Hospitals	-	550,000	-	-	550,000	0.66%
Streets	10,369,021	3,881,706	-	-	14,250,727	17.08%
Buildings	10,754,398	4,413,012	7,200,000	1,348,265	23,715,675	28.43%
Equipment	3,091,038	1,257,589	597,000	-	4,945,627	5.93%
Recreation	1,472,648	103,175	-	-	1,575,823	1.89%
Sewer	16,459	541,459	225,000	400,000	1,182,918	1.42%
Sewage Treatment	-	4,306,470	-	6,100,000	10,406,470	12.47%
Electric	-	225,000	-	15,500,000	15,725,000	18.85%
Transit	1,915,946	-	-	-	1,915,946	2.30%
Other	5,837	1,860,960	35,948	-	1,902,745	2.28%
Totals	$27,625,347	$19,756,871	$8,232,948	$27,804,265	$83,419,431	100%
	33.1%	23.7%	9.9%	33.3%	100.0%	

Year Ended March 31, 2018

The accumulated loans outstanding at March 31, 2018 amounted to $774.9 million, comprising $770.8 million to 68 municipalities and enterprises and $4.1 million to one district health authority.

Outstanding Borrowing Program

Funds totaling $83.4 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 $35.1 million issue in May 2017 and a $48.3 million issue in November 2017. Interest rates ranged from 1.200% to 3.382%.

New Long-Term Loans During the Year

Fiscal year ending at March 31 ($millions)

Year	Municipal	Hospitals	Total
2009	110.9	-	110.9
2010	114.2	-	114.2
2011	119.0	-	119.0
2012	73.0	-	73.0
2013	137.8	-	137.8
2014	118.7	-	118.7
2015	115.6	-	115.6
2016	112.6	-	112.6
2017	84.5	-	84.5
2018	83.4	-	83.4

Ten-Year History of Loans to Municipalities, School Boards, and Hospitals

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

Loans Outstanding at Year End

Fiscal year ending at March 31 ($millions)

Year	Municipal	Hospitals	Total
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
2013	764.3	7.4	771.7
2014	790.3	6.8	797.1
2015	809.1	6.2	815.3
2016	813.4	5.5	818.9
2017	792.6	4.8	797.4
2018	770.8	4.1	774.9

SCHEDULE OF OUTSTANDING LOANS

Year ending March 31, 2018

By Jurisdiction	Principal March 31/17	New Loans	Principal Repayment	Principal March 31/18
Regional Municipalities				
Cape Breton	94,184,659	8,274,000	(17,646,972)	84,811,687
Halifax	248,547,113	19,351,347	(42,354,081)	225,544,379
Queens	3,435,435	-	(257,303)	3,178,132
Total Regional Municipalities	**346,167,207**	**27,625,347**	**(60,258,356)**	**313,534,198**
Towns				
Amherst	9,643,950	-	(858,059)	8,785,891
Antigonish	3,148,500	2,770,000	(371,800)	5,546,700
Berwick	1,798,849	2,715,000	(208,125)	4,305,724
Bridgewater	3,041,800	1,957,570	(749,367)	4,250,003
Clark's Harbour	212,000	-	(29,000)	183,000
Digby	1,443,142	232,297	(185,105)	1,490,334
Kentville	7,378,750	1,159,000	(1,181,110)	7,356,640
Lockeport	359,236	-	(58,626)	300,610
Lunenburg	2,914,077	777,900	(350,819)	3,341,158
Mahone Bay	520,800	300,000	(53,900)	766,900
Middleton	2,303,541	-	(235,344)	2,068,197
Mulgrave	2,020,067	-	(125,533)	1,894,534
New Glasgow	8,694,760	3,195,040	(1,310,191)	10,579,609
Oxford	2,284,900	-	(348,000)	1,936,900
Pictou	3,355,813	-	(493,173)	2,862,640
Port Hawkesbury	4,325,095	-	(530,865)	3,794,230
Shelburne	2,146,127	516,094	(203,096)	2,459,125
Stellarton	9,329,526	-	(634,561)	8,694,965
Stewiacke	1,193,732	-	(175,436)	1,018,296
Trenton	1,514,700	585,000	(131,367)	1,968,333
Truro	23,296,300	550,000	(2,303,550)	21,542,750
Westville	1,891,899	-	(195,751)	1,696,148
Windsor	5,385,758	3,631,470	(500,799)	8,516,429
Wolfville	4,851,852	1,367,500	(575,116)	5,644,236
Yarmouth	2,166,667	-	(400,000)	1,766,667
Total Towns	**105,221,841**	**19,756,871**	**(12,208,693)**	**112,770,019**

By Jurisdiction	Principal March 31/17	New Loans	Principal Repayment	Principal March 31/18
Rural Municipalitities				
Annapolis	3,766,658	-	(731,008)	3,035,650
Antigonish	3,658,085	-	(218,609)	3,439,476
Argyle	636,364	-	(127,273)	509,091
Barrington	1,525,588	-	(179,732)	1,345,856
Chester	8,992,380	-	(1,437,833)	7,554,547
Clare	2,140,001	-	(178,333)	1,961,668
Colchester	24,274,032	-	(2,331,774)	21,942,258
Cumberland	6,790,723	7,200,000	(745,102)	13,245,621
Digby	1,460,000	-	(179,000)	1,281,000
Guysborough	12,146,916	175,000	(944,652)	11,377,264
Hants East	26,479,015	-	(1,748,540)	24,730,475
Hants West	8,123,484	597,000	(712,753)	8,007,731
Inverness	2,750,000	-	(430,000)	2,320,000
Kings	4,795,707	225,000	(1,362,825)	3,657,882
Lunenburg	5,864,391	-	(999,848)	4,864,543
Richmond	1,535,055	-	(307,045)	1,228,010
St Mary's	875,000	-	(125,000)	750,000
Shelburne	-	35,948	-	35,948
Victoria	150,000	-	(75,000)	75,000
Yarmouth	3,077,500	-	(292,500)	2,785,000
Total Rural Municipalities	**119,040,899**	**8,232,948**	**(13,126,827)**	**114,147,020**

Villages				
Baddeck	387,501	-	(67,518)	319,983
Kingston	32,000	-	(16,000)	16,000
Lawrencetown	17,000	-	(8,500)	8,500
St. Peters	172,598	-	(51,367)	121,231
Port Williams	51,000	-	(51,000)	-
Westport	5,000	-	(5,000)	-
Weymouth	17,500	-	(17,500)	-
Total Villages	**682,599**	**-**	**(216,885)**	**465,714**

By Jurisdiction	Principal March 31/17	New Loans	Principal Repayment	Principal March 31/18
Municipal Enterprises				
Alternative Resource Energy Authority	24,000,000	15,500,000	(917,925)	38,582,075
Blandford Fire Commission	342,857	-	(57,143)	285,714
Bridgewater Public Service Commission	2,130,300	956,000	(421,300)	2,665,000
Digby Area Recreation	214,558	-	(50,506)	164,052
Glen Haven Manor Corporation	355,050	-	(71,010)	284,040
Halifax Regional Water Commission	173,936,118	10,000,000	(15,023,204)	168,912,914
Kings Regional Rehabilitation Centre	484,000	-	(22,000)	462,000
Lunenburg Co Multi-Purpose Centre	4,706,414	-	(362,032)	4,344,382
Lunenburg Home for Special Care	311,795	-	(72,215)	239,580
Milford Haven Corporation	211,172	-	(15,084)	196,088
Pictou Co Wellness Centre	9,240,000	-	(440,000)	8,800,000
R.K. MacDonald Nursing Home	1,411,605	-	(193,460)	1,218,145
St Peters-Samsonville Water Utility	1,134,000	-	(74,000)	1,060,000
Valley Waste Resource Management	2,752,173	1,348,265	(1,653,639)	2,446,799
Western Shore Fire Dept	234,000	-	(26,000)	208,000
Total Municipal Enterprises	**221,464,042**	**27,804,265**	**(19,399,518)**	**229,868,789**

District Health Authorities				
Capital District Health Authority	4,779,980	-	(685,263)	4,094,716
Annapolis Valley Health	62,900	-	(62,900)	-
Total District Health Authorities	**4,842,880**	**-**	**(748,163)**	**4,094,716**
Total Loans	**797,419,468**	**83,419,431**	**(105,958,442)**	**774,880,456**

OTHER PROGRAMS

In addition to its long-term borrowing program, the Corporation offers additional programs to assist municipalities with financial planning and capacity building.

Short-Term Borrowing

In 2014, the Corporation secured a $50 million line of credit from the Department of Finance and Treasury Board to facilitate requests from municipalities. Previously, the Corporation's reserve fund was used to provide short-term loans to clients that had completed capital projects and were awaiting participation in the next debenture issue. This change creates an opportunity for the municipal client to access low-interest, short-term loans; and for the Corporation to invest and earn more interest on its reserve fund. Short-term loans are available to finance municipalities until the next debenture offering and interest is charged at 90 day Bankers' Acceptance plus 50 basis points calculated using Canadian Dollar Offered Rate (CDOR). The Corporation administered $7,004,450 to 3 municipalities and 1 municipal enterprise for capital-related projects; 1 was debentured during 2017-18 in the amount of $332,700.

Financial Management Best Practices

The Corporation continued to assist the Town of Lockeport in implementing the 7 Core Best Practises. As of March 31, 2018, the Town has implemented five of the seven Core Best Practises.

The Corporation has assisted the County of Cumberland in 2017-2018 with improving its Audit Committee Terms of Reference incorporating best practices into its policy. The Corporation will continue to assist Cumberland in implementing two more best practices in the 2018-2019 year.

The Corporation provided assistance to the District of Digby in developing the Core Best Practise of Documention of Accounting Policies and Procedures in 2017-2018.

Debt Affordability Model

The Corporation actively promotes the use of its Debt Affordability Model. The model is a debt management tool that allows municipalities to make strategic long-term capital planning decisions. In 2017-18, staff continued to work with clients to provide training and to assist in implementation of the model based on their unique needs.

Municipal Finance Training and Capacity Building Program

The Corporation encourages capacity building amongst municipal finance officials. To that end, 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. Aundrea Currie, Director of Corporate Services for the Town of Truro was selected to attend the Government Corporate Services Officers Association 111th Annual Conference held in Denver, Colorodo in 2017.

The Corporation sponsored local training opportunities for both elected officials and administrative staff. For administrative staff, the Corporation sponsored the Association of Municipal Administrators of Nova Scotia Spring and Fall Conferences, the Municipal Finance Officers training sessions and the Associations Financial Management II Module: Policies, Processes and Control Systems for Managers.

For elected officials, the Corporation sponsored the Union of Nova Scotia Municipalities Fall Conference, and the Association of Municipal Administrators of Nova Scotia Financial Management III Module: Financial Management for Elected Officials.

Partnerships

The Corporation works closely with stakeholders in the municipal community in Nova Scotia. The Corporation has built strong partnerships with the Union of Nova Scotia Municipalities and Association of Municipal Administrators of Nova Scotia which represent the elected and administrative officials in the province. This relationship helps to promote and distribute information about the Corporation through their respective annual conferences, listserves, and websites. By having representation from these organizations on the Board, the Corporation is also able to remain up-to-date with current municipal issues and needs.

The Corporation maintains close ties to provincial departments as well. The staff at the Department of Municipal Affairs and Nova Scotia Municipal Finance Corporation work together throughout the debenture process to process borrowing requests from municipalities. The Debt Affordability Model is also regularly used by the Municipal Advisors and other staff in policy matters. The Departments of Finance and Treasury Board and Justice also provide assistance to the Corporation.

> "I am so appreciative to the Municipal Finance Corporation for allowing me the opportunity to attend the GFOA conference. The conference helped remind me that we are leaders, we are the backbone of our municipal units. We must remind ourselves that our knowledge and experience is valuable and the financial information we provide our Council, CAO's and Directors allow them to make informed decisions for the community they serve." Aundrea Currie, *Director of Corporate Services, Town of Truro*

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 the 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 satements 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.

Paul Wills, CPA, CMA
Chief Executive Officer/Treasurer

Robert J. Audoux, CPA, CGA
Manager of Financial Services

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, 2018, 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, 2018, 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
June 29, 2018
Halifax, Canada

STATEMENT OF FINANCIAL POSITION

March 31, 2018, with comparative information for 2017

	2018	2017
Financial assets:		
Cash and cash equivalents (note 5(a))	$ 13,385,471	$ 7,035,872
Accrued interest receivable	8,640,518	8,972,550
HST receivable	647	558
Accounts receivable	85	85
Loans (note 2)	774,879,967	797,415,572
	796,906,688	813,424,637
Financial liabilities:		
Accounts payable	47,015	50,581
Employee obligation (note 4)	86,347	86,195
Accrued interest payable	8,626,691	8,967,588
Short-term loan due to Province of Nova Scotia (note 7)	6,671,750	332,700
Debentures (note 3)	774,869,339	797,396,789
	790,301,142	806,833,853
Net financial assets	6,605,546	6,590,784
Accumulated surplus	**$ 6,605,546**	**$ 6,590,784**

See accompanying notes to audited financial statements.

On behalf of the Board:

Director

Director

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

Year ended March 31, 2018, with comparative information for 2017

	Budget 2018	Actual 2018	Actual 2017
Revenue:			
Interest on loans	$ 27,173,786	$ 26,942,114	$ 28,714,109
Interest on short-term investments	45,321	108,524	59,236
Recovery of issue costs	375,834	280,577	281,798
Administration fee	440,000	333,678	337,932
	28,034,941	27,664,893	29,393,075
Expenses:			
Interest on debenture debt and short-term loans	27,171,836	26,948,274	28,719,686
Debenture issue expenses	372,961	281,950	282,917
Administrative expenses (schedule)	462,978	419,907	425,483
	28,007,775	27,650,131	29,428,086
Annual operating surplus (deficit)	27,166	14,762	(35,011)
Accumulated surplus, beginning of year	6,590,784	6,590,784	6,625,795
Accumulated surplus, end of year	$ 6,617,950	$ 6,605,546	$ 6,590,784

See accompanying notes to audited financial statements.

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

Year ended March 31, 2018, with comparative information for 2017

	Budget 2018	Actual 2018	Actual 2017
Annual operating surplus (deficit)	$ 27,166	$ 14,762	$ (35,011)
Increase (decrease) in net financial assets	27,166	14,762	(35,011)
Net financial assets, beginning of year	6,590,784	6,590,784	6,625,795
Net financial assets, end of year	$ 6,617,950	$ 6,605,546	$ 6,590,784

See accompanying notes to audited financial statements

STATEMENT OF CASH FLOWS

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Annual operating surplus (deficit)	$ 14,762	$ (35,011)
Item not involving cash:		
Amortization of fair value adjustment on loans	(3,406)	(5,734)
Amortization of fair value adjustment on debenture debt	3,406	5,734
Increase in employee obligations	152	-
Change in non-cash operating working capital (note 5(b))	(12,520)	(9,005)
	2,394	(44,016)
Investing activities:		
Issuance of loans to units	(83,419,431)	(84,482,958)
Payments received on loans to units	105,958,442	105,998,660
	22,539,011	21,515,702
Financing activities:		
Proceeds of debentures	83,420,000	84,483,000
Principal payments on debenture	(105,950,856)	(105,992,530)
Change in short-term loan due to Province of Nova Scotia	6,339,050	(358,187)
	(16,191,806)	(21,867,717)
Increase (decrease) in cash and cash equivalents	6,349,599	(396,031)
Cash and cash equivalents, beginning of year	7,035,872	7,431,903
Cash and cash equivalents, end of year	$ 13,385,471	$ 7,035,872

Supplemental cash flow information (note 5 (c))

See accompanying notes to audited financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2018

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 costs less valuation allowances and writeoffs. Periodically loans are assessed for collectability and risk of loss. To the extent required, a valuation allowance based on past events, current circumstances and all available information at the date of the preparation of the financial statements is recorded to reduce the loans to their expected net realizable value. Losses as a result of a valuation allowance are recorded in the statement of operations.

(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, 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.

NOTES TO FINANCIAL STATEMENTS

(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.

(i) Accounting changes:

On April 1, 2017, the Corporation adopted Canadian public sector accounting standards PS 2200 Related party disclosures, PS 3420 Inter-entity transactions, PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual rights. The adoption of these standards did not result in an accounting policy change for the entity, and did not result in any adjustments to the financial statements as at April 1, 2017 other than required disclosures for related party transactions.

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 1.200% to 6.125%. Repayment terms are negotiated on specific loans and would normally not exceed twenty years.

	2018	2017
Loans	$774,879,967	$797,415,572
Less amounts due within 12 months	105,332,093	105,958,442
Remaining balance	$669,547,874	$691,457,130

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

	Loans	Debentures payable
2019	$105,332,093	$105,351,978
2020	97,494,619	97,510,438
2021	95,587,591	95,603,639
2022	80,632,515	80,642,612
2023	108,740,264	108,750,252

NOTES TO FINANCIAL STATEMENTS

3. Debentures:

The debenture debt outstanding at March 31, 2018 totaling $774,869,339 (2017 - $797,396,789) 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 $767,587,716 (2017 - $789,357,980).

Series	Date issued	Maturity date Calendar Year	Interest rate	2018 Amortized cost of debt outstanding
AP	Jan.30/98	2019	6.125	$ 3,670,744
BB	Jan. 9/03	2018 to 2023	5.913	4,094,716
BC	May 28/03	2018	5.750	2,185,885
BD	Oct. 15/03	2018	5.375	1,629,883
BE	June 10/04	2018 to 2019	5.700-5.750	350,999
BF	Sept 1/04	2018 to 2024	5.670-5.940	38,500,000
BG	Nov. 25/04	2018 to 2019	5.265-5.325	797,000
BH	June 1/05	2018 to 2020	4.760-4.880	7,834,000
BI	Nov 22/05	2018 to 2020	4.715-4.830	11,561,000
BJ	June 1/06	2018 to 2021	4.960-5.080	2,494,000
BK	Oct. 24/06	2018 to 2021	4.510-4.590	16,853,000
BL	June 1/07	2018 to 2022	4.670-4.770	15,672,000
BM	Oct. 17/07	2018 to 2022	5.060-5.210	3,158,000
BN	July 7/08	2018 to 2023	4.884-5.088	14,745,000
FCM-C*	Sept. 30/08	2018	2.190	66,126
BP	Oct. 24/08	2018 to 2023	5.095-5.480	12,484,000
BQ	June 1/09	2018 to 2024	4.667-5.644	25,167,000
BR	Oct. 27/09	2018 to 2024	4.124-4.939	16,244,000
BS	June 29/10	2018 to 2025	4.175-4.875	27,305,000
BT	Nov. 9/10	2018 to 2025	3.460-4.410	18,538,000
BU	May 30/11	2018 to 2026	3.635-4.597	13,553,000
BV	Nov. 9/11	2018 to 2026	2.985-4.026	18,825,000
FCM-D*	Nov 15/11	2018 to 2021	1.750	509,091
FCM-E*	Mar. 26/12	2019 to 2032	2.000	309,971
BW	May 15/12	2018 to 2027	2.792-3.856	22,849,000
FCM-F*	July 3/12	2018 to 2032	2.000	1,363,832
BX	July 6/12	2018 to 2022	2.443-3.156	24,000,000
FCM-G*	Aug 22/12	2018 to 2032	2.000	3,000,000
BY	Nov. 9/12	2018 to 2027	2.450-3.580	37,341,000
BZ	May 15/13	2018 to 2028	2.054-3.489	51,756,000
CA	Nov. 15/13	2018 to 2028	2.460-4.114	33,428,000
CB	June 5/14	2018 to 2029	1.923-3.792	33,627,000
CC	Nov. 17/14	2018 to 2029	1.970-3.559	54,484,000
CD	June 1/15	2018 to 2030	1.342-3.205	33,044,000
FCM-H*	Oct 30.15	2018 to 2025	1.750	2,033,092
CE	Nov. 20/15	2018 to 2030	1.394-3.449	59,819,000
CF	May 16/16	2018 to 2031	1.441-3.475	59,813,000
CG	Nov. 15/16	2018 to 2031	1.250-3.108	18,344,000
CH	May 9/17	2018 to 2032	1.200-3.209	35,123,000
CI	Nov. 9/17	2018 to 2032	1.734-3.382	48,297,000
				$ 774,869,339

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).

4. Employee obligations:

(a) Public Service Awards:

As at March 31, 2018, the Corporation has recorded a liability in the amount of $86,347 (2017 - $86,195) in respect of the provincial public service award (PSA) for the employees of the Corporation.

On April 7, 2015, the Province announced that the PSA would be discontinued on a go forward basis for excluded (non-union) employees accrued to August 11, 2015.

On January 19, 2018, the Province announced that there would be a one-time Service Payout initiative concerning the PSA. Provincial employees can take their accrued PSA now, versus waiting until retirement. Those employees who do not take their PSA until they retire, would continue to accrue PSA. The PSA is calculated as "service time x salary at retirement date". Service time is frozen as of April 1, 2015, but salary at retirement date is used in the PSA calculation upon retirement.

(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 2018 were $23,943 (2017 - $23,605) and are recognized in administrative expenses in the financial statements.

Actuarial valuations of the Province of Nova Scotia's Plan, of which the Corporation's employees are members, 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 Province of Nova Scotia's consulting actuaries, Mercer, performed a valuation as at December 31, 2016 and issued their report in June 2017. The report indicated that the Province of Nova Scotia's Plan had a funding excess of $160,833,000 (December 31, 2015 – funding excess of $44,869,000).

NOTES TO FINANCIAL STATEMENTS

5. Supplemental cash flow information:

(a) Cash and cash equivalents include:

	2018	2017
Cash	$ 6,713,721	$ 6,703,172
Short-term investments	6,671,750	332,700
	$ 13,385,471	$ 7,035,872

(b) Change in non-cash working capital:

	2018	2017
Accrued interest receivable	$ 332,032	$ 533,279
Other receivables	(89)	(411)
Accounts payable	(3,566)	(8,595)
Accrued interest payable	(340,897)	(533,278)
	$ (12,520)	$ (9,005)

(c) Supplemental cash flow information:

	2018	2017
Interest paid	$ 27,285,765	$ 29,247,229
Interest received	$ 27,287,241	$ 29,241,419

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.

(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. Cash deposits are held with tier one Canadian financial institutions to reduce the credit risk. 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 and cash and cash equivalents.

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, 2018:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	March 31, 2018 total
Accounts payable	$ 47,015	$ -	$ -	$ -	$ 47,015
Accrued interest payable	8,626,691	-	-	-	8,626,691
Employee obligations	16,438	26,371	43,538	-	86,347
Short Term Loan	6,671,750	-	-	-	6,671,750
Debentures (principal)	105,351,978	382,506,941	237,326,717	49,684,193	774,869,829
Debentures (interest)	25,332,319	68,049,434	24,258,773	4,370,848	122,011,374
	$ 146,046,191	$ 450,582,746	$ 261,629,028	$ 54,055,041	$ 912,313,006

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 $6,671,750 (2017 - $332,700). The balance bears interest at the Canadian Bankers acceptance rate (2018 - 1.54% to 1.66%; 2017 - 0.96%) and will be paid off through the bi-annual debenture issuance.

8. Related party transactions:

The Corporation is related to the Province of Nova Scotia as it was created by the Municipal Finance Corporation Act of Nova Scotia and is primarily financed by debentures from the Province of Nova Scotia (note 3). The amount of interest charged in debentures is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

SCHEDULE OF ADMINISTRATIVE EXPENSES

Year ended March 31, 2018, with comparative information for 2017

	Budget 2018	Actual 2018	Actual 2017
Salaries and benefits	$ 307,293	$ 299,194	$ 295,591
Travel	5,000	1,822	1,450
Equipment and maintenance	8,900	3,192	2,941
Printing	4,500	4,598	4,995
Postage	2,400	1,198	1,582
Telecommunications	2,600	1,623	1,688
Stationary and supplies	1,000	314	360
Professional services	36,700	33,600	34,075
Bank charges	-	1,094	5,413
Directors' fees and expenses	11,500	5,974	5,577
Audit Committee fees and expenses	2,200	803	937
Professional development	10,500	5,378	4,184
Dues and subscriptions	3,350	3,251	4,893
Insurance	785	875	834
Rent	39,050	36,219	35,498
Other	500	89	46
Advertising	2,200	1,755	1,995
Special projects	4,000	2,893	1,924
Sponsorship projects	14,500	13,535	16,500
Municipal client training initiatives	6,000	2,500	5,000
	$ 462,978	$ 419,907	$ 425,483

FROM THE 2017 CLIENT SURVEY

STAFF

97% feel the terms and structures offered by the Corporation on its debenture issues were flexible to meet their needs

100% indicated their questions were answered in a timely manner by the Corporation staff

Most highly rated Corporation programs:

- Debt Affordability Model **(100%)**
- Long-term capital finance planning **(100%)**
- Municipal Finance Officers Workshops **(100%)**
- Short term Loan Program **(100%)**
- Financial Management Best Practices **(97%)**

ELECTED

95% aware that the Corporation offers lower interest rates than financial institutions, a 4% increase from 2015

32% aware that municipalities are required to borrow from the Corporation for capital loans, a 52% decrease from 2015 (the proposed federal infrastructure bank has possibly influenced this response and with a 40% turnover in the municipal elections, many new councilors may not be aware of the borrowing process)

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