



— NOVA SCOTIA —
**MUNICIPAL FINANCE
CORPORATION**

40th 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, 2020 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 2019-2020 Statement of Business Plan.



Chuck Porter, Minister



Nancy MacLellan, Chair



Paul Wills, CEO



MESSAGE FROM THE CHAIR AND BOARD OF DIRECTORS

Since 1979, the staff of the Nova Scotia Municipal Finance Corporation (NSMFC) have worked closely with clients to build healthy and vibrant communities, and advance economic growth in Nova Scotia. 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. Our work touches the lives of all Nova Scotians. Over our 40-year history, we have helped municipalities make significant investments in the infrastructure that we all use and rely upon: fire service equipment, wellness centres that support healthy communities, facilities that provide clean drinking water for thousands of residents, and initiatives that improve public safety. By pooling administration costs and offering rates below what lenders can offer, we save taxpayers money as well.

Ensuring that rural and urban municipalities have modern infrastructure helps Nova Scotia remain competitive and attract and retain residents and businesses. Although this mandate has not changed since our 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 our programs and services in meeting our 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 achieving/advancing these goals.

We strive to provide the lowest possible long-term and short-term interest rates to municipalities. In 2019-2020, we achieved this goal through two annual debenture issuances: one for \$13.9 million and one for \$82.9 million. This represents total long-term loan activity of \$96.8 million during the fiscal year. Moreover, our “all-in” costs were below the variable prime interest rate, representing tremendous savings to municipal participants. We provided short-term loans to three municipalities and one municipal enterprise under our short-term loan program totaling \$1,503,315 at interest rates of 2.2525%, 2.420%, 2.500%, 2.560% and 2.720% respectively. This program helps municipalities 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.

Through our 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 2019-2020, three municipal units took advantage of this free program with overwhelming gratitude for the support and expertise they received.

During 2019-2020, two municipal units continued to place funds in the Corporation High Interest Savings Program earning double the interest they would have earned otherwise. We do not charge a fee to participate in this program, allowing municipalities to earn all the interest they are entitled to and helping them increase reserve balances.

We continue to promote the use of our Financial Management Best Practices. During 2019-2020 two municipalities have begun to, or continue to, implement some of the best practices to help strengthen their processes. Corporation staff provide support in developing these practices, at

no cost, to support the development of expertise in financial management and to ensure that it is resident within municipalities.

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. During 2019-2020, seven municipalities used the model for various purposes.

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

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

Nancy MacLellan, Chair

"The MFC High Interest Savings Account ("HISA") has helped the Town of Digby earn higher rates of interest on excess cash with minimal administrative burden. Transfers, which are relatively infrequent, to or from the HISA bank account are easily processed with a simple one line email to MFC and the posting of a GL journal entry. Currently the HISA allows the Town to earn 40 basis points (0.4%) higher interest which equates to approximately \$7,500 in additional annual interest earned."
Matthew Raymond, Director of Finance, Town of Digby

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 Federation of Nova Scotia Municipalities, Association of Municipal Administrators of Nova Scotia, the Department of Municipal Affairs and Housing, 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 Federation 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 Affairs and Housing 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 and Housing 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

Board of Directors

| | |
|---|--|
| Nancy MacLellan, Chair Deputy Minister, Department of Municipal Affairs and Housing | George MacDonald Councillor, Cape Breton Regional Municipality |
| Geoff Gatien, Vice Chair, CPA, CA Associate Deputy Minister, Department of Finance and Treasury Board | Kenzie McNeil Senior Financial Consultant, Halifax |
| Sandra Snow Mayor, Town of Kentville | Neil Morley, CPA, CA Member At Large, Mount Uniacke, Nova Scotia |

Officers of the Corporation

| | |
|---|--|
| Chair Nancy MacLellan Deputy Minister, Department of Municipal Affairs and Housing | <i>Corporate Secretary</i> Jason Haughn Municipal Advisor, Department of Municipal Affairs and Housing |
| Vice Chair Geoff Gatien, CPA, CA Associate Deputy Minister and Controller, Department of Finance and Treasury Board | <i>General Counsel</i> Phil Reid Department of Justice |
| <i>Chief Executive Officer and Treasurer</i> Paul Wills, CPA, CMA Nova Scotia Municipal Finance Corporation | <i>Assistant Treasurer</i> Roy Spence Director, Liability Management and Treasury Services, Department of Finance and Treasury Board |

Staff of the Corporation

| |
|---|
| Paul Wills, CPA, CMA - Chief Executive Officer and Treasurer |
| Bob Audoux, CPA, CGA - Manager, Financial Services |
| Kathleen MacCarthy - Administrative Assistant |

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 and Housing.

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 and Housing. 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 and Housing 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.

“The mentoring program is a great opportunity to sit down and discuss a variety of topics with an experienced municipal Director of Finance. This is a wonderful resource for someone new to municipal finance.”
Leah d’Eon, Manager of Finance, District of Barrington

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 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 2019-2020

- 100% of clients were satisfied with the timing of debenture issues¹
- 96% of clients agreed that the debenture terms and structure are flexible enough to meet their needs²
- Procedures ensure creditworthiness of loans
- Provincial guarantee allows the Corporation to price off the Province of Nova Scotia spread

Targets for 2020-21

- 100% client satisfaction rate with the timing of debenture issues
- 100% 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 26 participants (22 municipalities and 4 municipal enterprises)
- Issued \$96.8 million in debentures and loaned a similar amount to clients
- Administered \$1,128,250 in short-term financing pending issuance of a debenture, which was debentured in the spring issue
- Administered \$772.7 million in outstanding loans to municipalities and hospitals

¹ Data collected from the 2019 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 viability of the Corporation

Measure

- Client default rates
- Match assets and liabilities

Results in 2019-2020

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

Target for 2020-2021

- Maintain 0% default rate
- Maintain matching strategy

Outputs

- Reviewed all municipal requests with Department of Municipal Affairs and Housing 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 \$145,328 due to lower loan volumes than expected
- Maintained a reserve fund balance of \$6,909,988

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 2019-2020

- 50% of clients using the Debt Affordability Model³
- 38% of clients using the Financial Management Best Practices⁴
- 62% of municipal units attended Municipal Finance Officers workshops in 2019
- 92% of clients are aware of the Corporation programs and services⁵
- 67% attendance of available space at AMANS Financial Management 1: Strategy, Statements and Budgets for Municipal Managers⁶

Targets for 2020-2021

- 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
- 75% 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 Town of Digby to attend the annual Government Finance Officers Association Conference in Los Angeles in 2019
- Sponsored and participated in Municipal Finance Officers forums at AMANS Spring Workshop and Fall Conference
- Sponsored one finance modules provided by AMANS - Financial Management I Strategy, Statements and Budgets for Municipal Managers
- Continue promoting the Corporation's Short-Term Loan Program, High Interest Savings Account Program and the Mentoring Program to municipalities

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

Kenzie McNeil

Municipal Finance Corporation Board Member
Senior Financial Consultant
Halifax Regional Municipality

Jennifer Campbell, CPA, CA

Association of Municipal Administrators of Nova Scotia
Representative Chief Financial Officer
Cape Breton Regional Municipality

"This has been a great exercise and the Debt Affordability Model is an extremely valuable planning tool. I can see us using this internally in the future, for sure!"

Jennifer Campbell, CFO, Cape Breton Regional Municipality

Interest Rates

The Federal Reserve Board established a near-zero target range for the Federal Funds Rate in late 2008 and maintained this policy stance until late 2015. At that time, the Federal Reserve Board commenced the policy normalization process with the first increase in the Federal Funds Rate in almost a decade, and followed with a further eight interest rate hikes over the next number of years to establish a range of 2.25 – 2.50%. In fiscal year 2019-2020, the Federal Reserve Board lowered administered interest rates by 25 basis points over three rate decisions in 2019, and cuts of 150 basis points in March 2020 with the outbreak of the Coronavirus pandemic. These interest rate cuts return the Federal Funds Rate to the levels experienced after the 2008 financial crisis.

The Bank of Canada has followed a similar path to the Federal Reserve Board in interest rate changes since the 2008 Global Financial Crisis. The Bank of Canada also lowered the overnight interest rates by 150 basis points in March 2020. The target level now stands at 25 basis points. 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. As many economic activities are expected to be shut down temporarily due to the COVID-19 pandemic, the Bank of Canada's short-term goal is to provide Canadian individuals and corporations with affordable and available credit.

Longer term interest rates in Canada and the United States started the 2019-20 fiscal year at comparatively modest levels by recent standards, and remained relatively unchanged throughout calendar year 2019, only to fall to historic low levels by the end of March 2020. The yield on the 10-year Government of Canada bond was 71 basis points at the end of the fiscal year. The Province of Nova Scotia's 10-year average cost of funds in the 2019-2020 fiscal year was 2.18%, compared to an average of 2.93% in 2018-19. In large part, the Province's continued low cost of funds reflects very low Government of Canada interest rates and relatively stable provincial credit spreads over Canada yields.

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). These measures of core inflation have remained stable and close to 2% since the beginning of 2018.

Long-term interest rates fell to historic lows at the end of the fiscal year. At the pricing of the Spring MFC issue, the 10-year Canada bond yield was 1.67%, down considerably from the Spring 2018 issue yield of 2.39%, and in the Fall MFC issue the rate was 1.60%, again down considerably from the 2018 yield of 2.42%. The 10-year Canada bond yield averaged 1.43% over the 2019-2020 fiscal year, down from 2.21% over the 2018-2019 fiscal year and from 1.91% over the 2017-2018 fiscal year. During the 2019-2020 fiscal year, 10-year Canada yields dropped to a low of 0.53% in March 2020, and the highest yield for the fiscal year was 1.80% in April 2019.

| Spring Issue (settled April 24, 2019) | | Fall Issue (settled October 29, 2019) | |
|---------------------------------------|--------------|---------------------------------------|--------------|
| 5 years | 2.35% | 5 years | 2.38% |
| 10 years | 2.60% | 10 years | 2.53% |
| 15 years | 2.81% | 15 years | 2.68% |
| 20 years | 2.93% | 20 years | 2.76% |
| All-in cost | 2.87% | All-in cost | 2.57% |

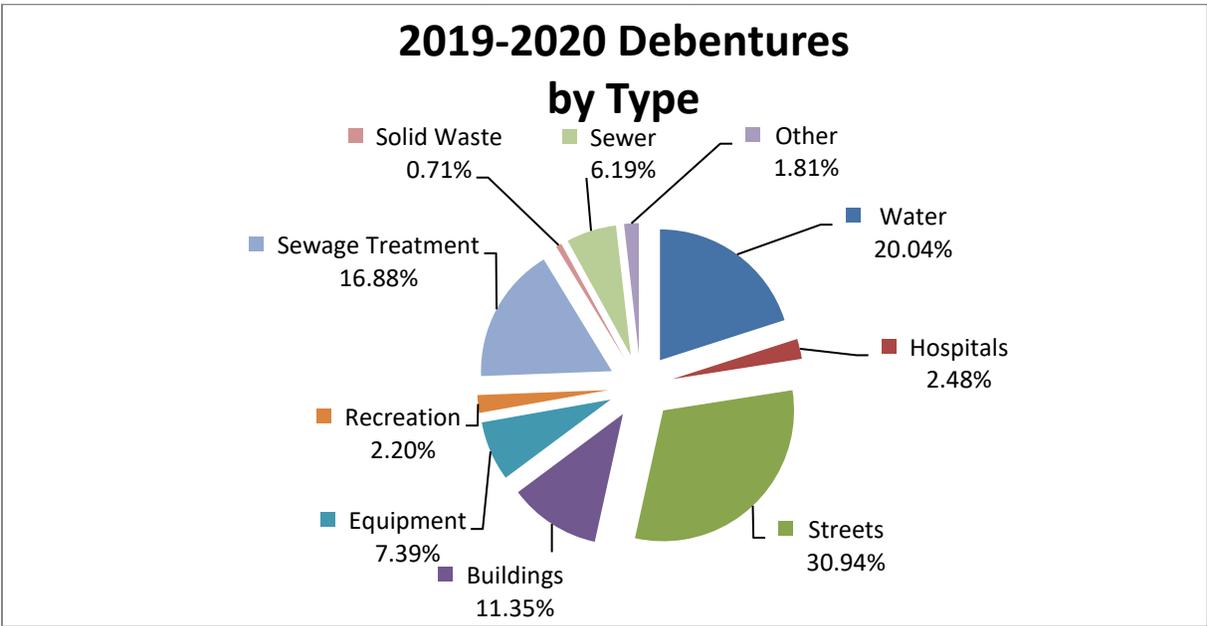
OVERVIEW OF LOAN PORTFOLIO

Loans to Municipalities, School Boards, and Hospitals

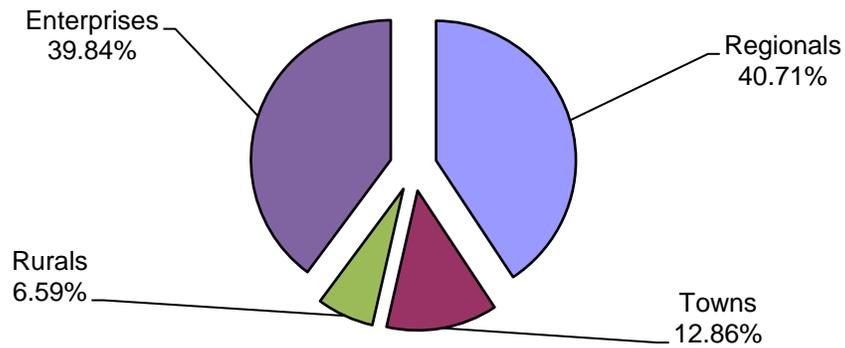
The Corporation’s loan portfolio consists of loans to municipalities and municipal enterprises, and hospitals/health authorities. Municipal enterprises are serviced or guaranteed by Nova Scotia municipalities, and health authorities are also supported by the Province. There are no arrears.

The Department of Municipal Affairs and Housing 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 \$96.8 million were made to 22 municipalities and 4 municipal enterprises. They were used for the purposes as shown below.



2019-2020 Debentures by Jurisdiction



| Purpose | Percent | Rural | | Municipal | | Total |
|------------------|---------|--------------|--------------|--------------|--------------|--------------|
| | | Regionals | Towns | Municipality | Enterprise | |
| Water | 20.04% | 0 | 1,802,199 | 0 | 17,603,000 | \$19,405,199 |
| Hospitals | 2.48% | 0 | 500,000 | 0 | 1,900,000 | \$2,400,000 |
| Streets | 30.94% | 27,405,691 | 2,549,118 | 0 | 0 | \$29,954,809 |
| Buildings | 11.35% | 3,173,269 | 2,818,516 | 5,000,000 | 0 | \$10,991,785 |
| Equipment | 7.39% | 4,487,407 | 2,504,038 | 93,772 | 71,568 | \$7,156,785 |
| Recreation | 2.20% | 1,612,224 | 516,584 | 0 | 0 | \$2,128,808 |
| Sewage Treatment | 16.88% | 0 | 1,348,455 | 0 | 15,000,000 | \$16,348,455 |
| Solid Waste | 0.71% | 0 | 0 | 688,840 | 0 | \$688,840 |
| Sewer | 6.19% | 1,927,300 | 67,992 | 0 | 4,000,000 | \$5,995,292 |
| Other | 1.81% | 813,210 | 341,774 | 598,800 | 0 | \$1,753,784 |
| Totals | 100.00% | \$39,419,100 | \$12,448,676 | \$6,381,412 | \$38,574,568 | \$96,823,756 |
| | | 40.71% | 12.86% | 6.59% | 39.84% | 100.00% |

Year Ended March 31, 2020

The accumulated loans outstanding at March 31, 2020 amounted to \$772.8 million, comprising \$770.2 million to 67 municipalities and enterprises and \$2.6 million to one district health authority.

Outstanding Borrowing Program

Funds totaling \$96.8 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 \$13.9 million issue in May 2019 and a \$82.9 million issue in November 2019. Interest rates ranged from 1.948% to 3.048%.

New Long-Term Loans During the

Year Fiscal year ending at March 31

(\$millions)

| Year | Municipal | Hospitals | Total |
|------|-----------|-----------|-------|
| 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 |
| 2019 | 112.6 | - | 112.6 |
| 2020 | 96.8 | - | 96.8 |

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 |
|------|-----------|-----------|-------|
| 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 |
| 2019 | 778.8 | 3.4 | 782.1 |
| 2020 | 770.2 | 2.6 | 772.8 |

SCHEDULE OF OUTSTANDING LOANS

Year ending March 31, 2020

| By Jurisdiction | Principal March 31/19 | New Loans | Principal Repayment | Principal March 31/20 |
|--|--------------------------|-------------------|------------------------|--------------------------|
| Regional Municipalities | | | | |
| Cape Breton | 84,240,846 | 10,250,000 | (13,764,569) | 80,726,277 |
| Halifax | 215,112,863 | 28,439,100 | (39,430,816) | 204,121,147 |
| Queens | 3,480,829 | 730,000 | (280,303) | 3,930,526 |
| Total Regional Municipalities | 302,834,538 | 39,419,100 | (53,475,688) | 288,777,950 |
| Towns | | | | |
| Amherst | 8,846,709 | 141,825 | (845,538) | 8,142,996 |
| Annapolis Royal | 0 | 250,000 | 0 | 250,000 |
| Antigonish | 4,967,900 | 0 | (578,800) | 4,389,100 |
| Berwick | 4,278,684 | 363,000 | (338,828) | 4,302,856 |
| Bridgewater | 4,531,879 | 563,000 | (778,424) | 4,316,455 |
| Clark's Harbour | 154,000 | 0 | (29,000) | 125,000 |
| Digby | 1,298,283 | 844,293 | (163,548) | 1,979,028 |
| Kentville | 6,884,020 | 731,400 | (1,252,550) | 6,362,870 |
| Lockeport | 316,984 | 0 | (63,625) | 253,359 |
| Lunenburg | 3,822,729 | 640,655 | (506,339) | 3,957,045 |
| Mahone Bay | 1,498,000 | 0 | (100,000) | 1,398,000 |
| Middleton | 1,840,753 | 0 | (227,444) | 1,613,309 |
| Mulgrave | 1,769,001 | 0 | (105,533) | 1,663,468 |
| New Glasgow | 9,940,890 | 1,427,145 | (1,765,964) | 9,602,071 |
| Oxford | 1,687,900 | 0 | (361,600) | 1,326,300 |
| Pictou | 2,973,883 | 0 | (312,655) | 2,661,228 |
| Port Hawkesbury | 3,263,365 | 1,935,000 | (905,865) | 4,292,500 |
| Shelburne | 2,475,940 | 1,175,084 | (231,666) | 3,419,358 |
| Stellarton | 9,150,404 | 285,000 | (711,161) | 8,724,243 |
| Stewiacke | 1,192,860 | 140,924 | (316,360) | 1,017,424 |
| Trenton | 3,402,716 | 0 | (282,617) | 3,120,099 |
| Truro | 19,883,300 | 2,757,500 | (4,462,950) | 18,177,850 |
| Westville | 1,516,059 | 0 | (170,246) | 1,345,813 |
| Windsor | 7,832,031 | 217,750 | (686,518) | 7,363,263 |
| Wolfville | 6,037,995 | 976,100 | (650,841) | 6,363,254 |
| Yarmouth | 1,366,667 | 0 | (300,000) | 1,066,667 |
| Total Towns | 110,932,952 | 12,448,676 | (16,148,072) | 107,233,556 |

| By Jurisdiction | Principal March 31/19 | New Loans | Principal Repayment | Principal March 31/20 |
|-----------------|--------------------------|-----------|------------------------|--------------------------|
|-----------------|--------------------------|-----------|------------------------|--------------------------|

| Rural Municipalities | | | | |
|---------------------------------------|--------------------|------------------|---------------------|--------------------|
| Annapolis | 2,567,612 | 600,000 | (369,302) | 2,798,310 |
| Antigonish | 3,220,867 | 0 | (218,609) | 3,002,258 |
| Argyle | 381,818 | 0 | (127,273) | 254,546 |
| Barrington | 1,166,124 | 0 | (179,732) | 986,392 |
| Chester | 9,054,818 | 0 | (1,663,243) | 7,391,575 |
| Clare | 2,360,353 | 0 | (207,184) | 2,153,169 |
| Colchester | 19,763,786 | 0 | (1,994,173) | 17,769,613 |
| Cumberland | 19,580,966 | 0 | (1,290,604) | 18,290,362 |
| Digby | 1,102,000 | 0 | (179,000) | 923,000 |
| Guysborough | 10,415,112 | 0 | (962,152) | 9,452,960 |
| Hants East | 27,468,975 | 5,598,800 | (2,311,996) | 30,755,779 |
| Hants West | 8,581,083 | 93,772 | (806,197) | 7,868,658 |
| Inverness | 2,090,000 | 0 | (230,000) | 1,860,000 |
| Kings | 2,787,065 | 0 | (760,117) | 2,026,948 |
| Lunenburg | 3,864,695 | 0 | (999,848) | 2,864,847 |
| Richmond | 920,965 | 0 | (307,045) | 613,920 |
| St Mary's | 956,460 | 0 | (149,073) | 807,387 |
| Shelburne | 73,430 | 88,840 | (7,703) | 154,567 |
| Yarmouth | 2,492,500 | 0 | (292,500) | 2,200,000 |
| Total Rural Municipalities | 118,848,629 | 6,381,412 | (13,055,751) | 112,174,291 |

| Villages | | | | |
|-----------------------|------------------|----------|------------------|----------------|
| Baddeck | 252,465 | 0 | (50,493) | 201,972 |
| Canning | 659,000 | 0 | (131,800) | 527,200 |
| St. Peters | 116,731 | 0 | (17,787) | 98,944 |
| Total Villages | 1,028,196 | 0 | (200,080) | 828,116 |

| By Jurisdiction | Principal March 31/19 | New Loans | Principal Repayment | Principal March 31/20 |
|--|--------------------------|-------------------|------------------------|--------------------------|
| Municipal Enterprises | | | | |
| Alternative Resource Energy Authority | 48,957,875 | 0 | (1,964,225) | 46,993,650 |
| Blandford Fire Commission | 228,571 | 0 | (57,143) | 171,428 |
| Bridgewater Public Service Commission | 2,148,100 | 103,000 | (516,900) | 1,734,200 |
| Digby Area Recreation | 143,546 | 0 | (20,506) | 123,040 |
| Glen Haven Manor Corporation | 213,030 | 0 | (71,010) | 142,020 |
| Halifax Regional Water Commission | 169,283,285 | 36,500,000 | (18,208,629) | 187,574,656 |
| Kings Regional Rehabilitation Centre | 440,000 | 0 | (22,000) | 418,000 |
| Lunenburg Co Multi-Purpose Centre | 3,982,350 | 0 | (362,032) | 3,620,318 |
| Lunenburg Home for Special Care | 163,670 | 0 | (79,795) | 83,875 |
| Milford Haven Corporation | 181,004 | 0 | (15,084) | 165,920 |
| Pictou Co Shared Services | 6,271,750 | 1,900,000 | (156,794) | 8,014,956 |
| Pictou Co Wellness Centre | 8,360,000 | 0 | (440,000) | 7,920,000 |
| R.K. MacDonald Nursing Home | 1,053,675 | 0 | (164,470) | 889,205 |
| St Peters-Samsonville Water Utility | 982,900 | 0 | (80,400) | 902,500 |
| Valley Waste Resource Management | 2,540,425 | 71,568 | (352,375) | 2,259,618 |
| Western Shore Fire Dept | 182,000 | 0 | (26,000) | 156,000 |
| Total Municipal Enterprises | 245,132,181 | 38,574,568 | (22,537,363) | 261,169,386 |
| District Health Authorities | | | | |
| Capital District Health Authority | 3,368,334 | 0 | (769,968) | 2,598,366 |
| Total District Health Authorities | 3,368,334 | 0 | (769,968) | 2,598,366 |
| Total Loans | 782,144,831 | 96,823,756 | (106,186,922) | 772,781,665 |

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 \$1,208,250 to 2 municipalities and 1 municipal enterprise for capital-related projects; 2 were debentured during 2019-20 in the amount of \$1,128,250.

Financial Management Best Practices

The Corporation continued to assist the Town of Lockeport, the Town of Oxford and the Town of Westville in implementing the seven Core Best Practices. As of March 31, 2020, both the Town of Lockeport and the Town of Oxford have implemented all seven of the Core Best Practices.

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 2019-2020, staff continued to work with clients to provide training and to assist in implementation of the model based on their unique needs. During 2019-2020, the Corporation has assisted seven municipalities utilize the model.

"I would recommend to any local government finance staff that they take the opportunity to attend the annual GFOA conference. The exposure to a wide variety of unique local government opportunities and unique solutions to challenges are invaluable and the cost to your local government is minimal considering that the MFC funds up to \$2,500. This makes for a good return on investment as the professional development hours obtained are significant."

Matthew Raymond, Director of Finance, Town of Digby

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 using best practices and benchmarking. Matthew Raymond, Director of Finance for the Town of Digby, was selected to attend the Government Finance Officers Association 113th Annual Conference held in Los Angeles, California in 2019.

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 spring and fall Municipal Finance Officers training session and the Association of Municipal Administrators of Nova Scotia Financial Management 1: Strategy, Statements and Budgets for Municipal Managers.

For elected officials, the Corporation sponsored the Nova Scotia Federation of Municipalities Fall Conference.

Partnerships

The Corporation works closely with stakeholders in the municipal community in Nova Scotia. The Corporation has built strong partnerships with the Federation 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, listservs, 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 Housing 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 provides assistance to the Corporation.

Staff Changes

In December 2019, Margo Horne retired as Administrative Assistant of the Corporation. Margo became involved with the Corporation in 2010 when she joined the Corporation as its Administrative Assistant. Prior to joining the Corporation, Margo was employed with the Department of Municipal Affairs and Housing for 25 years, most recently as the Administrative Assistant to the Policy and Finance Division. She brought over 25 years of experience in municipal government to the Corporation and always put the issues and concerns of the Corporation's municipal clients first and foremost. The Board of Directors and staff wish to acknowledge Margo's valuable contribution to Corporation and wish her all the best in her retirement.

The Corporation hired Kathleen McCarthy in October 2019 as its new Administrative Assistant. Kathleen was able to job shadow Margo for three months and gained valuable experience. The Board of Directors and staff welcome Kathleen aboard.

Annual Report under Section 18 of the *Public Interest Disclosure of Wrongdoing Act*

The Public Interest Disclosure of Wrongdoing Act was proclaimed into law on December 20, 2011. The Corporation adopted a Wrongdoing Disclosure Policy that mirrors the Act on June 20, 2019.

The Policy provides for the Corporation employees to be able to come forward if they reasonably believe that a wrongdoing has been committed or is about to be committed and they are acting in good faith.

The Policy also protects employees who do disclose from reprisals, by enabling them to lay a complaint of reprisal with the Labor Board.

A Wrongdoing for the purposes of the Policy is:

- a) a contravention of provincial or federal laws or regulations
- b) a misuse or gross mismanagement of public funds or assets
- c) an act or omission that creates an imminent risk of a substantial and specific danger to the life, health or safety of persons or the environment, or
- d) directing or counselling someone to commit a wrongdoing

The following is a summary of disclosures received by Corporation.

| Information Required under Section 18 of the Act | Fiscal Year 2019-2020 |
|--|-----------------------|
| The number of disclosures received | None |
| The number of findings of wrongdoing | None |
| Details of each wrongdoing | N/A |
| Recommendations and actions taken on each wrongdoing | N/A |

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 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.



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 Opinion

We have audited the financial statements of Nova Scotia Municipal Finance Corporation (the Corporation), which comprise:

- the statement of financial position as at end of March 31, 2020
- the statement of operations and accumulated surplus for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at end of March 31, 2020, and its results of operations, its changes in net assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “Auditors’ Responsibilities for the Audit of the Financial Statements” section of our auditors’ report.

We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other Information comprises:

- the information, other than the financial statements and the auditors’ report thereon, included in the Annual Report

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statement, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Report as of the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charges with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature, there is a horizontal line that starts under the "K" and ends under the "P", with a small gap in the middle.

Chartered Professional Accountants, Licensed Public Accountants
Halifax, Canada
June 18, 2020

STATEMENT OF FINANCIAL POSITION

March 31, 2020, with comparative information for 2019

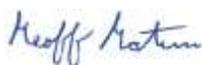
| | 2020 | 2019 |
|---|---------------------|---------------------|
| Financial assets: | | |
| Cash and cash equivalents (note 5(a)) | \$ 7,177,165 | \$ 8,135,457 |
| Accrued interest receivable | 8,521,548 | 8,753,125 |
| HST receivable | 480 | 3,043 |
| Accounts receivable | 85 | 106 |
| Loans (note 2) | 772,781,665 | 782,144,831 |
| | <u>788,480,943</u> | <u>799,036,562</u> |
| Financial liabilities: | | |
| Accounts payable | 51,491 | 50,667 |
| Employee obligation (note 4) | 45,078 | 70,957 |
| Accrued interest payable | 8,509,886 | 8,737,272 |
| Short-term loan due to Province of Nova Scotia (note 7) | 80,000 | 1,128,250 |
| Deposits | 39,871 | 45,854 |
| Due to municipal units | 141,216 | 125,051 |
| Debentures (note 3) | 772,703,413 | 782,113,851 |
| | <u>781,570,955</u> | <u>792,271,902</u> |
| Net financial assets | 6,909,988 | 6,764,660 |
| Accumulated surplus | \$ 6,909,988 | \$ 6,764,660 |

See accompanying notes to audited financial statements.

On behalf of the Board:



Director



Vice Chair

Director

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS

Year ended March 31, 2020, with comparative information for 2019

| | Budget 2020 | Actual 2020 | Actual 2019 |
|---|----------------|----------------|----------------|
| Revenue: | | | |
| Interest on loans | \$ 26,176,793 | \$ 25,200,360 | \$ 26,233,771 |
| Interest on short-term investments | 157,110 | 165,004 | 175,978 |
| Recovery of issue costs | 341,666 | 312,824 | 358,783 |
| Administration fee | 400,000 | 387,295 | 450,386 |
| | 27,075,569 | 26,065,483 | 27,218,918 |
| Expenses: | | | |
| Interest on debenture debt and short-term loans | 26,172,471 | 25,199,092 | 26,254,007 |
| Debenture issue expenses | 341,706 | 310,950 | 360,953 |
| Administrative expenses (schedule) | 512,911 | 410,113 | 444,844 |
| | 27,027,088 | 25,920,155 | 27,059,804 |
| Annual operating surplus | 48,481 | 145,328 | 159,114 |
| Accumulated surplus, beginning of year | 6,764,660 | 6,764,660 | 6,605,546 |
| Accumulated surplus, end of year | \$ 6,813,141 | \$ 6,909,988 | \$ 6,764,600 |

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

Year ended March 31, 2020, with comparative information for 2019

| | Budget 2020 | Actual 2020 | Actual 2018 |
|---|----------------|----------------|----------------|
| Annual operating surplus | \$ 48,481 | \$ 145,328 | \$ 159,114 |
| Increase in net financial assets | 48,481 | 145,328 | 159,114 |
| Net financial assets, beginning of year | 6,764,660 | 6,764,660 | 6,605,546 |
| Net financial assets, end of year | \$ 6,813,141 | \$ 6,909,988 | \$ 6,764,660 |

See accompanying notes to audited financial statements

STATEMENT OF CASH FLOWS

Year ended March 31, 2020, with comparative information for 2019

| | 2020 | 2019 |
|--|---------------|---------------|
| Cash provided by (used in): | | |
| Operating activities: | | |
| Annual operating surplus | \$ 145,328 | \$ 159,114 |
| Item not involving cash: | | |
| Amortization of fair value adjustment on loans | | (489) |
| Amortization of fair value adjustment on debenture debt | | 489 |
| Increase in employee obligations | (25,879) | (15,390) |
| Change in non-cash operating working capital (note 5(b)) | 23,764 | 124,260 |
| | 143,213 | 267,984 |
| Investing activities: | | |
| Issuance of loans to units | (96,807,982) | (112,466,692) |
| Payments received on loans to units | 106,183,638 | 105,370,206 |
| Due to municipal unit | (18,473) | (122,034) |
| | 9,357,183 | (7,218,520) |
| Financing activities: | | |
| Proceeds of debentures | 96,823,000 | 112,596,000 |
| Principal payments on debenture | (106,233,438) | (105,351,978) |
| Change in short-term loan due to Province of Nova Scotia | (1,048,250) | (5,543,500) |
| | (10,458,688) | 1,700,522 |
| Change in cash and cash equivalents | (958,292) | (5,250,014) |
| Cash and cash equivalents, beginning of year | 8,135,457 | 13,385,471 |
| Cash and cash equivalents, end of year | \$ 7,177,165 | \$ 8,135,457 |

Supplemental cash flow information (note 5 (c))

See accompanying notes to audited financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2020

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 write-offs. 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. At the February 7, 2019 board meeting, the board amended the reserve fund policy by removing the CAP of \$7 million and to have the Audit Committee review the Reserve Fund Fee annually and provide recommendations on its level to the Board.

(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.

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 1.475% to 5.940%. Repayment terms are negotiated on specific loans and would normally not exceed twenty years. On March 20, 2020 the Corporation deferred all interest and principle payments from the Units due from April 2020 – June 2020. All amounts owed during the period are required to be repaid by the Units by July 2, 2020.

| | 2020 | 2019 |
|-----------------------------------|----------------------|----------------------|
| Loans | \$772,781,665 | \$782,144,831 |
| Less amounts due within 12 months | 112,170,599 | 106,186,922 |
| Remaining balance | \$660,611,066 | \$675,957,909 |

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

| | Loans | Debentures payable |
|------|---------------|--------------------|
| 2021 | \$112,170,599 | 112,215,639 |
| 2022 | 97,226,524 | 97,265,612 |
| 2023 | 125,346,272 | 125,384,252 |
| 2024 | 99,746,582 | 99,778,197 |
| 2025 | 77,434,674 | 77,463,197 |

NOTES TO FINANCIAL STATEMENTS

3. Debentures:

The debenture debt outstanding at March 31, 2020 totaling \$772,703,413 (2019 - \$782,113,851) 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. On March 20, 2020 the Corporation deferred all interest and principle payments from the Units due from April 2020 – June 2020. All amounts owed during the period are required to be repaid by the Units by July 2, 2020.

At year-end, the total debentures due to the Province of Nova Scotia was \$765,976,366 (2019 – \$774,592,334).

| Series | Date issued | Maturity date | | Interest rate | 2020 |
|--------|-------------|---------------|--|---------------|------------------------------------|
| | | Calendar Year | | | Amortized cost of debt outstanding |
| BB | Jan. 9/03 | 2020 to 2023 | | 5.913 | 2,598,366 |
| BF | Sept 1/04 | 2020 to 2024 | | 5.780-5.940 | 27,500,000 |
| BH | June 1/05 | 2020 | | 4.880 | 6,331,000 |
| BI | Nov 22/05 | 2020 | | 4.830 | 8,657,000 |
| BJ | June 1/06 | 2020 to 2021 | | 5.040-5.080 | 1,748,000 |
| BK | Oct. 24/06 | 2020 to 2021 | | 4.570-4.590 | 13,249,000 |
| BL | June 1/07 | 2020 to 2022 | | 4.745-4.770 | 12,586,000 |
| BM | Oct. 17/07 | 2020 to 2022 | | 5.160-5.210 | 2,533,000 |
| BN | July 7/08 | 2020 to 2023 | | 4.949-5.088 | 7,968,000 |
| BP | Oct. 24/08 | 2020 to 2023 | | 5.255-5.480 | 5,465,000 |
| BQ | June 1/09 | 2020 to 2024 | | 5.059-5.644 | 11,803,000 |
| BR | Oct. 27/09 | 2020 to 2024 | | 4.439-4.939 | 1,106,000 |
| BS | June 29/10 | 2020 to 2025 | | 4.500-4.875 | 19,321,000 |
| BT | Nov. 9/10 | 2020 to 2025 | | 3.870-4.410 | 7,360,000 |
| BU | May 30/11 | 2020 to 2026 | | 4.057-4.597 | 8,515,000 |
| BV | Nov. 9/11 | 2020 to 2026 | | 3.471-4.026 | 11,464,000 |
| FCM-D* | Nov 15/11 | 2020 to 2021 | | 1.750 | 254,546 |
| FCM-E* | Mar. 26/12 | 2021 to 2032 | | 2.000 | 265,691 |
| BW | May 15/12 | 2020 to 2027 | | 3.172-3.856 | 16,496,000 |
| FCM-F* | July 3/12 | 2020 to 2032 | | 2.000 | 1,181,990 |
| BX | July 6/12 | 2020 to 2022 | | 2.842-3.156 | 20,800,000 |
| FCM-G* | Aug 22/12 | 2020 to 2032 | | 2.000 | 2,600,000 |
| BY | Nov. 9/12 | 2020 to 2027 | | 2.830-3.580 | 30,082,000 |
| BZ | May 15/13 | 2020 to 2028 | | 2.454-3.489 | 40,646,000 |
| CA | Nov. 15/13 | 2020 to 2028 | | 3.005-4.114 | 27,699,000 |
| CB | June 5/14 | 2020 to 2029 | | 2.516-3.792 | 26,071,000 |
| CC | Nov. 17/14 | 2020 to 2029 | | 2.455-3.559 | 43,695,000 |
| CD | June 1/15 | 2020 to 2030 | | 1.833-3.205 | 24,860,000 |
| FCM-H* | Oct 30/15 | 2020 to 2025 | | 1.750 | 1,524,820 |
| CE | Nov. 20/15 | 2020 to 2030 | | 1.902-3.449 | 50,765,000 |
| CF | May 16/16 | 2020 to 2031 | | 1.809-3.475 | 50,276,000 |
| CG | Nov. 15/16 | 2020 to 2031 | | 1.487-3.108 | 15,199,000 |
| CH | May 9/17 | 2020 to 2032 | | 1.475-3.209 | 30,655,000 |
| CI | Nov. 9/17 | 2020 to 2032 | | 2.132-3.382 | 40,732,000 |
| CJ | May 30/18 | 2020 to 2033 | | 2.367-3.501 | 47,998,000 |
| FCM-I* | Oct. 31/18 | 2020 to 2028 | | 2.250 | 900,000 |
| CK | Nov. 9/18 | 2020 to 2033 | | 2.677-3.551 | 54,975,000 |
| CL | May 9/19 | 2020 to 2034 | | 1.982-3.048 | 13,932,000 |
| CM | Nov. 15/19 | 2020 to 20334 | | 2.015-2.829 | 82,891,000 |
| | | | | | \$ 772,703,413 |

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).

NOTES TO FINANCIAL STATEMENTS

4. Employee obligations:

(a) Public Service Awards:

As at March 31, 2020, the Corporation has recorded a liability in the amount of \$45,078 (2019 - \$70,957) 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.

(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 2020 were \$25,741 (2019 - \$24,082) 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). The December 31, 2019 report is expected to be released in June 2020.

NOTES TO FINANCIAL STATEMENTS

5. Supplemental cash flow information:

(a) Cash and cash equivalents include:

| | 2020 | 2019 |
|------------------------|--------------|--------------|
| Cash | \$ 7,097,165 | \$ 7,007,207 |
| Short-term investments | 80,000 | 1,128,250 |
| | \$ 7,177,165 | \$ 8,135,457 |

(b) Change in non-cash working capital:

| | 2020 | 2019 |
|-----------------------------|------------|--------------|
| Accrued interest receivable | \$ 231,577 | \$ (112,607) |
| Other receivables | 2,584 | (2,416) |
| Accounts payable | 824 | 3,651 |
| Accrued interest payable | (211,221) | 235,632 |
| | \$ 23,764 | \$ 124,260 |

(c) Supplemental cash flow information:

| | 2020 | 2019 |
|-------------------|---------------|---------------|
| Interest paid | \$ 25,426,478 | \$ 26,142,936 |
| Interest received | \$ 25,424,870 | \$ 26,119,399 |

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.

NOTES TO FINANCIAL STATEMENTS

(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, 2020:

| | Within 1-year | 2 to 5 years | 6 to 10 years | Over 10 years | March 31, 2020 total |
|--------------------------|------------------|-----------------|------------------|------------------|----------------------------|
| Accounts payable | \$ 51,491 | \$ - | \$ - | \$ - | \$ 51,491 |
| Accrued interest payable | 8,509,886 | - | - | - | 8,509,886 |
| Employee obligations | - | - | 45,078 | - | 45,078 |
| Short Term Loan | 80,000 | - | - | - | 80,000 |
| Debentures (principal) | 112,215,639 | 399,891,258 | 206,668,445 | 53,928,071 | 772,703,413 |
| Debentures (interest) | 24,029,244 | 60,611,751 | 24,602,331 | 4,230,274 | 113,473,600 |
| | \$ 144,886,260 | \$ 460,503,009 | \$ 231,315,854 | \$ 58,158,345 | \$ 894,863,468 |

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 \$80,000 (2019 - \$1,1128,250). The balance bears interest at the Canadian Bankers' acceptance rate 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.

9. Subsequent events:

On April 28, 2020 the Province of Nova Scotia announced a new operating loan program to help municipalities with reduced cash flow due to COVID-19. The \$380 million loan program, which was developed in collaboration with the Nova Scotia Federation of Municipalities and the Association of Municipal Administrators, will be available through the Corporation.

Municipalities must first determine their revenue shortfall. Then the Department of Municipal Affairs & Housing will analyze the requests and, if approved, will forward the approval to the Corporation. Municipalities requesting financing assistance must do so by March 31, 2021 as there will be no new loans authorized after this date. The operating loans have a 3-year period payback at the provincial 3-year fixed interest rate of 1.1%

SCHEDULE OF ADMINISTRATIVE EXPENSES

Year ended March 31, 2020, with comparative information for 2019

| | Budget 2020 | Actual 2020 | Actual 2019 |
|---------------------------------------|-------------|-------------|-------------|
| Salaries and benefits | \$ 326,436 | \$ 328,191 | \$ 302,832 |
| Travel | 5,000 | 1,016 | 305 |
| Equipment and maintenance | 52,500 | 1,581 | 6,337 |
| Printing | 4,100 | - | 4,291 |
| Postage | 1,675 | 937 | 973 |
| Telecommunications | 1,475 | 1,618 | 1,678 |
| Stationary and supplies | 400 | 226 | 1,222 |
| Professional services | 34,770 | 34,045 | 48,770 |
| Bank charges | 750 | (259) | 1,179 |
| Directors' fees and expenses | 11,600 | 5,058 | 7,066 |
| Audit Committee fees and expenses | 1,800 | 1,516 | 1,022 |
| Professional development | 12,300 | 10,581 | 6,900 |
| Dues and subscriptions | 3,355 | 3,105 | 3,065 |
| Insurance | 900 | 918 | 910 |
| Rent | 26,050 | - | 36,219 |
| Other | 500 | 40 | 65 |
| Advertising | 2,200 | 2,074 | 2,294 |
| Special projects | 8,100 | 3,226 | 3,837 |
| Sponsorship projects | 14,000 | 13,740 | 13,379 |
| Municipal client training initiatives | 5,000 | 2,500 | 2,500 |
| | \$ 512,911 | \$ 410,113 | \$ 444,844 |

FROM THE 2019 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 **(100%)**

ELECTED

81%

aware that the Corporation offers lower interest rates than financial institutions

38%

aware that municipalities are required to borrow from the Corporation for capital loans



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MUNICIPAL FINANCE
CORPORATION



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