

# **Nova Scotia Municipal Finance Corporation**

**26th Annual Report  
2006**



**Nova Scotia**

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2006**



**Nova Scotia**

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## Message from the Chair

**A**s Chair of the Nova Scotia Municipal Finance Corporation it is my pleasure to present the Nova Scotia Municipal Finance Corporation's 26th annual report for the 2005–2006 fiscal year.

The year 2005–2006 was one of the Corporation's most active years, as it represents one of the five years in the Corporation's history when its annual debenture issuance exceeded \$100 million. The Corporation placed two debenture issues for over \$112 million, issued a record \$6.5 million in short term loans, and ended the fiscal year with a net income of \$289,915.

The Corporation also continued its leadership role in the area of financial management capacity building. Through its cooperation with the Association of Municipal Administrators of Nova Scotia and the Department of Service Nova Scotia and Municipal Relations, 11 recommended financial best practices for Nova Scotia municipalities were developed in 2005–2006.

The Corporation continues to focus on the results of the August 2004 client evaluation of its services and programs to ensure that the goals and objectives of the Corporation match those of our clients. The results confirmed that our clients are satisfied with the service we provide for low-cost long-term capital financing. They also supported the Corporation's movement toward financial management capacity building in municipalities in Nova Scotia. To this end, the Corporation has been a partner in developing best practices for financial management (referred to above) and has developed a debt affordability model, which a number of municipalities are piloting. Results from the survey have been used as benchmarks for a number of performance measures that have been incorporated in the Corporation's business plan.

At this time I would like to thank the Board members, the staff of the Corporation, and the staff of the provincial Departments of Service Nova Scotia and Municipal Relations, Finance, and Justice for their advice and assistance throughout the year.



Greg Keefe, B.Comm, CMA  
Chair

## How the Corporation Functions

### Authority

The Nova Scotia Municipal Finance Corporation was established by an Act of the Legislature of the Province of Nova Scotia in 1979, being Chapter 301 of the Revised Statutes of Nova Scotia, 1989. The legislative authority for the Corporation can be found in the Municipal Finance Corporation Act.

### Mission and Purpose

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

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

All municipalities and municipal enterprises must finance their external capital requirements through the Corporation. Exceptions exist for projects that are financed through short-term financing and certain projects for which 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 partners with the Association of Municipal Administrators of Nova Scotia and the Department of Service Nova Scotia and Municipal Relations, as well as with other professional associations, in the building of financial management capacity in local governments across Nova Scotia.

### Administration

The Corporation is governed by a Board of Directors appointed by the Governor-in-Council. The Municipal Finance Corporation Act requires that 40 per cent of the Board be municipal representatives. There are currently five Directors on the Board: two members are senior public servants, two members are appointed upon the recommendation of the Union of Nova Scotia Municipalities, and the fifth member is appointed from the community at large.

The Corporation is self-funded; the Minister of Service Nova Scotia and Municipal Relations is required, by legislation, to approve the administrative budget. The Corporation levies fees on loans made to its clients to help offset the administrative expenses of the Corporation. These fees coupled with interest revenue earned by the Corporation on its short-term investments ensure that the Corporation operates in a positive position.

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

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7th Floor, Provincial Building  
1723 Hollis Street  
Halifax, Nova Scotia B3J 2M3

*Mailing address:*  
P.O. Box 850, Station "M"  
Halifax, Nova Scotia B3J 2V2

*Telephone:* (902) 424-4590  
*Fax:* (902) 424-0525  
*Website:* <http://www.gov.ns.ca/nsmfc/>

## Directors and Officers *(as at March 31, 2006)*

### Directors of the Corporation

Greg Keefe, CMA, Chair  
*Deputy Minister*  
Department of Service Nova Scotia and Municipal  
Relations

Keith Hunter  
*Warden*  
Municipality of the County of Cumberland

Bruce Hetherington  
*UNSM Appointed Representative*  
Halifax Regional Municipality

Elizabeth A. Cody  
*Assistant Deputy Minister*  
Nova Scotia Department of Finance

James E. Radford, MBA, CA,  
*Business Consultant*  
Martins Point, Nova Scotia

### Officers of the Corporation

*Chair*  
Greg Keefe, CMA  
Deputy Minister  
Department of Service Nova Scotia and Municipal  
Relations

*Chief Executive Officer and Treasurer*  
R. Mark Gilbert, MBA, PhD

*Corporate Secretary*  
Dianne Grant  
Policy Analyst  
Department of Service Nova Scotia and Municipal  
Relations

*General Counsel*  
Pauline Doucette, LLB  
Senior Solicitor  
Department of Justice

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

Planning for the Corporation is formulated in accordance with the clients' needs. The Corporation must ensure that it has ready access to capital markets and that it has the financial and administrative capacity to respond to local governments' demand for capital infrastructure financing. In order to ensure that the Corporation is successful in meeting the demand for capital infrastructure financing, the Corporation's Board of Directors approves a business plan on an annual basis.

The 2005–2006 business plan reaffirms our mission statement to provide competitive capital financing for approved projects to municipalities, municipal enterprises, school boards, and hospitals.

Business planning is an evolving process. Outcomes, measures, and indicators are evaluated during the course of the year for effectiveness and responsiveness to the Corporation's longer-term strategic vision. Through the evaluation process, outcomes and measures may be changed to ensure that they are within the Corporation's area of responsibility, the Corporation can influence the outcome, and the Corporation's performance can be measured. Data gathered from a 2004 client survey provided the Corporation with information useful in determining benchmark data for performance measurement in our business plans.

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

- identify its client needs and respond to them
- keep abreast of developments in local government capital finance
- maintain financial self-sufficiency

The annual report reflects the Corporation's results as measured against the 2005–2006 business plan. Along with measuring the longer-term strategic goals of the Corporation, the annual report also includes operational results. These operational measures are important in ensuring that the Corporation can meet its priorities and goals.

## Business Plan and Accountability Report

The business plan features three strategic goals, which are identified below. Outcomes, measures, and results are also included.

### Strategic Goal 1

To provide capital infrastructure financing to our clients at the lowest available cost, within acceptable risk parameters, to meet their particular debt structure and timing needs.

*Outcome:*

Competitive financing to our clients in a timely and responsive manner

*Measures:*

Client satisfaction rates with cost, timing, term, and structure of MFC loans

*Targets:*

A 90 per cent to 100 per cent client satisfaction rate by fiscal 2007–2008. Regular review of loan procedures and maintaining credit enhancement through access to the provincial guarantee

*Operational results:*

- Issued 38 loans to 32 municipalities and municipal enterprises
- Issued \$112,048,474 in debentures and on-loaned a similar amount to clients
- Administered \$6,454,386 in short-term financing pending issuance of a debenture
- Administered \$621 million in outstanding debentures, which included the payment of debenture interest
- Administered \$621.3 million in outstanding loans to municipalities and hospitals

## Strategic Goal 2

To ensure access to capital markets through prudent management of all financial aspects of the Corporation, which includes credit risk and asset/liability management.

### *Outcome:*

Ensure a sustainable source of funding is available for financing requests from clients and to ensure the operation of the Corporation.

### *Measures:*

Client default rates, matching of assets and liabilities, and adoption of a risk management strategy.

### *Targets:*

No defaults, maintain matched asset and liability amounts, adopt a risk management plan in 2005–2006.

### *Operational results:*

- Reviewed all municipal requests with Service Nova Scotia and Municipal Relations to ensure that the loans to a municipal unit did not pose a credit risk to the Corporation
- Managed asset and liabilities of the Corporation to mitigate risk and to ensure that the Corporation did not incur any negative carry costs
- Managed the administration budget of the Corporation prudently and ended the fiscal year with a net income of \$289,915 and a reserve fund balance of \$5.367 million
- Adopted a risk management framework

## Strategic Goal 3

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

### *Outcome:*

Client awareness of new financial products and features that may help municipal governments, improved MFC products that respond to client needs, and increased financial management knowledge in municipalities.

### *Measures:*

Percentage of municipal units that are satisfied with products being offered by the MFC and existence of effective programs directed at client needs

### *Targets:*

A 90 per cent to 100 per cent client satisfaction rate by fiscal 2007–2008. Development of programs that meet client needs.

### *Operational results:*

- Continued a joint committee with the Association of Municipal Administrators of Nova Scotia and the Department of Service Nova Scotia and Municipal Relations to promote financial management capacity with a commitment of human and financial resources
- Developed 11 best practices, modelled on the Government Finance Officers Association (GFOA) recommended best practices, which have been adapted for use by local governments in Nova Scotia
- Promoted the MFC's debt affordability model to municipal units through presentations at the Nova Scotia Association of Municipal Administrators conference and at regional meetings and through one-on-one demonstrations and training. To date staff of 35 Nova Scotia municipalities have received training on the use of the model
- Sponsored finance professionals in a municipal unit to attend the annual GFOA Conference
- Continued to participate on joint committees (municipal and provincial)

## Market Conditions 2005–2006

### Economic Environment

The Canadian economy put in a strong performance during the 2005–2006 fiscal year as reflected in real GDP growth of 2.9 per cent and continues to adjust well to the higher value of the Canadian dollar. Strong domestic demand offset the drag on growth stemming from relatively weaker exports. The Canadian dollar improved markedly against the US dollar over the 2005–2006 fiscal year with a March 31, 2006, Bank of Canada rate of 1.1671 versus 1.2096 recorded a year earlier. Strong economic fundamentals, significant increases in commodity prices, and a broadly weakening US dollar combined to support the Canadian dollar. Treasury yields reached all time lows in both the US and Canada this year with 30-year Government of Canada yields hitting 4.02 per cent and US Treasuries falling to 4.23 per cent.

### Interest Rates

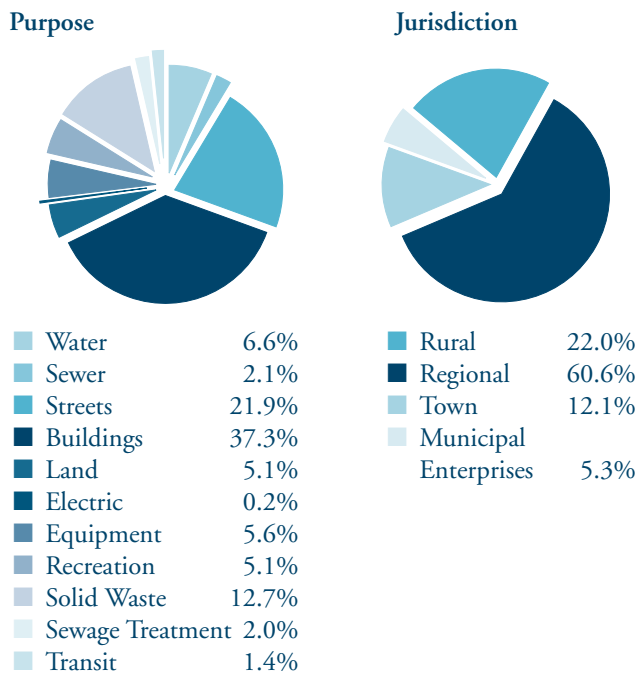
Canada benchmark yields remained historically low in the mid to long end of the yield curve throughout 2005–2006 as short rates steadily increased. The provincial credit spread market widened somewhat over the course of the year. The Province of Nova Scotia benchmark spreads remained strong versus their provincial peers though somewhat wider relative to the underlying Canada benchmark. The Nova Scotia Municipal Finance Corporation's borrowing costs are based on the province's cost of funds and remained attractive throughout the fiscal year.

The Corporation issued two pooled debenture issues in 2005–2006. The all-in cost of funds to our clients are detailed below

<b>Spring Issue</b>		<b>Fall Issue</b>	
<i>Settled June 1, 2005</i>		<i>Settled November 22, 2005</i>	
5 years	3.76%	5 years	4.14%
10 years	4.26%	10 years	4.37%
15 years	4.56%	15 years	4.59%
20 years	4.70%	20 years	4.70%

## Overview of Loan Portfolio

### Loans Made during the Year



Note: The amount of debentures issued during the year approximates the long-term loans made.

### Loans to Municipal Units and School Boards

The Corporation's loan portfolio consists of loans to municipal units and enterprises that are serviced or guaranteed by Nova Scotia municipalities, loans to school boards that are serviced by the Province of Nova Scotia, and loans to hospitals/health authorities guaranteed by the province. There are no arrears. The Department of Service Nova Scotia and Municipal Relations performs the credit checks using ministerially approved debt policy guidelines. The Minister approves all capital borrowing requests by municipal units and municipal enterprises. The Corporation's interest rate risk is minimized by matching the interest rates, term, and features of its debenture issues with those on the loans it makes to its clients.

During the year, long-term loans totalling \$112,048,474 were made to 30 municipal units and 2 municipal enterprises. They were used for the purposes as shown.

### Schedule of New Loans by Purpose (By Jurisdiction)

Purpose	Regional	Town	Rural	Municipal Enterprises	Total
Water	\$ 0	\$ 2,353,866	\$ 0	\$ 5,000,000	\$ 7,353,866
Schools	0	0	0	0	0
Sewer	1,581,688	791,416	0	0	2,373,104
Streets	20,084,264	4,120,648	387,000	0	24,591,912
Buildings	31,223,878	4,057,891	5,569,762	908,000	41,759,531
Equipment	5,730,821	519,411	40,000	0	6,290,232
Recreation	5,199,109	196,094	300,000	0	5,695,203
Solid Waste	2,926,000	0	11,257,238	0	14,183,238
Sewage Treatment	1,200,000	399,998	598,000	0	2,197,998
Other (Transit, land, electric)	0	1,126,390	6,477,000	0	7,603,390
<b>Totals</b>	<b>\$ 67,945,760</b>	<b>\$ 13,565,714</b>	<b>\$ 24,629,000</b>	<b>\$ 5,908,000</b>	<b>\$ 112,048,474</b>

## Projects Administered

The accumulated loans outstanding at March 31, 2006, amount to \$ 621.3 million, comprising \$611.1 million to 67 municipal units and enterprises and \$10.2 million to one district health authority. Effective March 31, 1993, the Province of Nova Scotia assumed all loans related to shareable school and hospital construction. The following table shows the total loans outstanding at the end of each of the last 10 fiscal years, broken down by category.

### 10-Year History of Loans to Municipal Units, School Boards, and Hospitals

**New Long term Loans during the year:**  
*Fiscal year ending at March 31st (\$millions)*

	Municipal	Hospitals	School Boards	Total
1997	62.9	-	-	62.9
1998	145.4	-	1.4	146.8
1999	105.1	-	-	105.1
2000	84.5	-	2.5	87.0
2001	52.4	-	-	52.4
2002	49.9	-	-	49.9
2003	84.6	11.0	-	95.6
2004	73.1	-	-	73.1
2005	167.7	-	-	167.7
2006	112.0	-	-	112.0

**Loans outstanding at Year End:**  
*Fiscal year ending at March 31st (\$millions)*

	Municipal	Hospitals	School Boards	Total
1997	319.9	63.0	153.4	536.3
1998	449.3	53.9	128.6	631.8
1999	493.7	53.9	116.2	663.8
2000	508.9	35.3	68.3	612.5
2001	463.4	11.8	25.0	500.2
2002	452.2	10.9	18.7	481.8
2003	469.7	11.0	2.2	482.9
2004	481.5	10.8	0.7	493.0
2005	579.5	10.5	0.3	590.3
2006	611.1	10.2	-	621.3

## Outstanding Borrowing Program

Funds totalling \$112 million for loans to municipal units and municipal enterprises were raised through two issues in the Canadian domestic market. These issues were placed privately with the Province of Nova Scotia which purchased a \$53.9 million issue in June 2005 and a \$58.1 million issue in November 2005. Interest rate coupons ranged from 2.97 per cent to 4.88 per cent.

## Other Programs

The Corporation offers borrowing programs beyond long-term financing via debenture issue as well as financial management capacity building programs to assist municipal units with long-term financial planning.

## Borrowing Programs

The Board of Directors has long supported a short-term borrowing program for its clients. The Corporation's reserve fund is used to provide short-term loans to its clients that have completed their capital project and are awaiting participation in the debenture issue. The terms of the short-term loan are for a period of not greater than one year. Interest is charged at a rate of Bank of Montreal's prime lending rate less 1 per cent.

In addition to the short-term financing program, the Board of Directors has also approved a Bridge Financing program specific to projects cost shared under the Canada–Nova Scotia Infrastructure Works Program (CNSIWP). Under the terms of the CNSIWP agreement, financing costs are an ineligible expense for cost sharing purposes. To help offset some of the financing costs of these projects, the Corporation offers financing at a rate of bankers' acceptance plus 100 basis points.

## Schedule of Outstanding Loans

By Jurisdiction	Principal March 31/05	New Loans	Principal Repaid	Principal March 31/06
<b>Regionals:</b>				
Halifax	\$ 356,143,773	\$ 59,380,000	(\$ 47,746,576)	\$ 367,777,197
Cape Breton	34,618,102	5,639,760	(6,169,104)	34,088,758
Queens	3,917,009	2,926,000	(470,984)	6,372,025
<b>Total Regionals</b>	<b>394,678,884</b>	<b>67,945,760</b>	<b>(54,386,664)</b>	<b>408,237,980</b>
<b>Province of Nova Scotia</b>	<b>\$ 10,836,004</b>	<b>\$ 0</b>	<b>(\$ 651,551)</b>	<b>\$ 10,184,453</b>
<b>Towns:</b>				
Amherst	\$ 4,139,058	\$ 112,500	(\$ 763,715)	\$ 3,487,843
Annapolis Royal	625,514	0	(93,516)	531,998
Antigonish	659,018	540,018	(659,018)	540,018
Berwick	1,558,165	426,296	(262,981)	1,721,480
Bridgetown	401,631	0	(53,126)	348,505
Bridgewater	3,116,744	509,000	(480,511)	3,145,233
Canso	868,860	0	(33,278)	835,582
Clark's Harbour	13,100	0	(13,100)	0
Digby	579,400	105,000	(120,280)	564,120
Hantsport	339,090	1,300,000	(66,430)	1,572,660
Kentville	6,151,884	2,264,400	(730,894)	7,685,390
Lockeport	72,000	111,000	(9,000)	174,000
Lunenburg	324,500	0	(109,500)	215,000
Mahone Bay	161,100	0	(69,100)	92,000
Middleton	1,145,818	282,665	(212,929)	1,215,554
Mulgrave	601,720	0	(116,840)	484,880
New Glasgow	5,405,544	623,437	(458,166)	5,570,815
Oxford	1,670,732	310,000	(173,776)	1,806,956
Parrsboro	60,802	0	(8,686)	52,116
Pictou	1,208,213	0	(66,915)	1,141,298
Port Hawkesbury	3,755,750	1,676,000	(779,250)	4,652,500
Shelburne	711,350	298,500	(366,650)	643,200
Springhill	1,899,160	0	(174,480)	1,724,680
Stellarton	749,911	730,000	(142,516)	1,337,395
Stewiacke	1,281,464	750,000	(75,436)	1,956,028
Trenton	776,648	0	(211,636)	565,012
Truro	4,817,000	2,325,000	(403,000)	6,739,000
Westville	1,041,720	921,698	(607,695)	1,355,723
Windsor	2,456,605	63,200	(218,222)	2,301,583
Wolfville	4,794,166	217,000	(632,006)	4,379,160
Yarmouth	4,198,367	0	(537,467)	3,660,900
<b>Total Towns</b>	<b>\$ 55,585,033</b>	<b>\$ 13,565,714</b>	<b>(\$ 8,650,119)</b>	<b>\$ 60,500,628</b>

## Schedule of Outstanding Loans *continued*

By Jurisdiction	Principal March 31/05	New Loans	Principal Repaid	Principal March 31/06
<b>Rurals:</b>				
<i>Municipalities</i>				
Annapolis	\$ 3,497,549	\$ 0	(\$ 574,195)	\$ 2,923,354
Antigonish	1,107,499	0	(69,167)	1,038,332
Barrington	1,674,378	300,000	(755,511)	1,218,867
Chester	1,785,535	6,850,000	(358,934)	8,276,601
Colchester	14,801,666	4,000,000	(5,601,666)	13,200,000
Cumberland	1,647,939	450,000	(264,052)	1,833,887
Guysborough	2,524,500	0	(111,000)	2,413,500
Hants East	5,492,867	6,441,000	(993,322)	10,940,545
Hants West	456,997	0	(288,497)	168,500
Inverness	450,000	0	(150,000)	300,000
Kings	8,227,670	1,648,000	(1,239,541)	8,636,129
Lunenburg	5,351,700	4,900,000	(210,000)	10,041,700
Pictou	1,437,066	0	(911,951)	525,115
Richmond	2,460,000	0	(206,667)	2,253,333
Shelburne	17,000	0	(8,500)	8,500
Victoria	1,756,000	0	(134,000)	1,622,000
Yarmouth	787,500	0	(67,500)	720,000
<i>Villages</i>				
Baddeck	1,197,617	0	(67,493)	1,130,124
Bible Hill	324,000	0	(36,000)	288,000
Chester	143,000	0	(11,000)	132,000
Kingston	410,000	0	(52,500)	357,500
Lawrencetown	17,000	0	(8,500)	8,500
New Minas	125,000	0	(25,000)	100,000
St. Peters	389,233	40,000	(20,000)	409,233
Port Williams	110,000	0	(22,000)	88,000
Westport	27,500	0	(5,500)	22,000
<b>Total Rurals</b>	<b>\$ 56,219,215</b>	<b>\$ 24,629,000</b>	<b>(\$ 12,192,496)</b>	<b>\$ 68,655,720</b>
<b>Municipal Enterprises:</b>				
Bridgewater Public Service Commission	\$ 4,470,000	\$ 0	(\$ 290,000)	\$ 4,180,000
Digby Housing Corporation	714,666	0	(55,333)	659,333
Glen Haven Manor	995,300	0	(33,200)	962,100
Halifax Regional Water Commission	63,291,750	5,000,000	(3,379,250)	64,912,500
Lunenburg Home for Special Care	929,000	908,000	(929,000)	908,000
R.K. MacDonald	1,531,095	0	(339,301)	1,191,794
Seaview Manor	686,000	0	(85,750)	600,250
Villa Acadienne	383,900	0	(45,500)	338,400
<b>Total Enterprises</b>	<b>\$ 73,001,711</b>	<b>\$ 5,908,000</b>	<b>(5,157,334)</b>	<b>73,752,377</b>
<b>Total Loans</b>	<b>\$ 590,320,848</b>	<b>\$ 112,048,474</b>	<b>(\$ 81,038,164)</b>	<b>\$ 621,331,159</b>

## Financial Management Capacity-Building Programs

### Best Financial Management Practices

The NSMFC and the Association of Municipal Administrators of Nova Scotia (AMA) have formed a joint committee with the goal of developing financial management best practices for use by municipalities in Nova Scotia.

The committee strives to be representative of all municipalities in the province. It includes finance professionals working in towns and regional and rural municipalities, as well as representatives from the Department of Service Nova Scotia and Municipal Relations. The committee uses recommended practices that have been developed by the Government Finance Officers Association (GFOA) and adapts them to fit to Nova Scotia legislation and practices. This year was the committee's third year of operation. Eleven best practices were developed in fiscal 2005–2006.

The NSMFC developed a debt affordability model to assist municipalities in capital planning and debt management. A number of municipalities are now piloting the model.

## Municipal Finance Training and Capacity-Building Program

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

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

The NSMFC, in partnership with the Department of Service Nova Scotia and Municipal Relations, sponsors two financial professionals working in municipal government in Nova Scotia to attend the annual GFOA Conference. This international conference is dedicated to the development of financial excellence in local government, through the use of best practices and benchmarking.

## 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 PSAB and CICA's 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 financial statements were prepared.

The financial statements have been examined independently by the external auditors, Grant

Thornton LLP, whose responsibility it is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditors Report, attached to the financial statements, outlines the scope of their examination and contains their opinion.

The financial statements and all information in the annual report have been approved by the Board of Directors. The external auditors have full and free access to the Board, with and without the presence of management, to discuss auditing, internal control, accounting policy, and financial reporting matters.

## Auditors' Report to the Directors

To the Directors of Nova Scotia Municipal Finance Corporation

We have audited the balance sheet of the Nova Scotia Municipal Finance Corporation as at March 31, 2006 and the statements of revenue, expenditure and reserve fund and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also

includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Grant Thornton LLP*

Grant Thornton LLP  
Chartered Accountants  
Dartmouth, Nova Scotia  
April 27, 2006

# Balance Sheet

Year Ended March 31

	2006	2005
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 21,820	\$ 16,658
Short term investments, at cost (market - \$5,301,366; 2005 - \$4,526,403 (Note 9))	5,301,366	4,526,403
Accrued interest receivable	9,883,629	9,989,752
HST receivable	673	495
Principal due within one year on loans to units	87,451,864	81,038,164
	<u>102,659,352</u>	<u>95,571,472</u>
<b>Long-Term</b>		
Loans to units (Note 3)	621,331,159	590,320,848
Less principal included in current assets	87,451,864	81,038,164
	<u>533,879,295</u>	<u>509,282,684</u>
Investments, at amortized cost (market - Nil; 2005 - \$445,213)	-	441,811
	<u>533,879,295</u>	<u>509,724,495</u>
<b>Deferred Charges:</b>		
Discount on debenture debt	2,388,291	2,388,291
Less accumulated amortization	1,847,055	1,658,139
	<u>541,236</u>	<u>730,152</u>
	<u>\$ 637,079,883</u>	<u>\$ 606,026,119</u>
<b>Liabilities and Equity</b>		
<b>Current</b>		
Accounts payable	\$ 32,413	\$ 34,472
Due to municipal units	140,402	136,217
Accrued interest payable	9,851,847	9,956,536
Principal due within one year on debentures	87,177,723	80,999,289
	<u>97,202,385</u>	<u>91,126,514</u>
Employee obligations (Note 8)	80,520	74,520
<b>Long-Term</b>		
Debentures payable (Note 5)	621,069,953	590,021,242
Less principal included in current liabilities	87,177,723	80,999,289
	<u>533,892,230</u>	<u>509,021,953</u>
<b>Deferred Credits</b>		
Discount on loans to units	2,381,966	2,381,966
Less accumulated amortization	1,844,595	1,656,296
	<u>537,371</u>	<u>725,670</u>
<b>Equity</b>		
Reserve Fund	5,367,377	5,077,462
	<u>\$ 637,079,883</u>	<u>\$ 606,026,119</u>

See accompanying notes to the financial statements.

On behalf of the Board  
Greg Keefe, Director

James Radford, Director

## Statements of Revenue, Expenditure and Reserve Fund

March 31

	2006	2005
<b>Revenue</b>		
Interest on loans to units	\$ 32,778,611	\$ 31,346,386
Amortization of discount on loans to units	188,299	216,518
Interest on short term investments	163,390	118,262
Recovery of issue costs	369,393	1,054,247
Reserve fee	392,170	419,184
	<u>33,891,863</u>	<u>33,154,597</u>
<b>Expenditure</b>		
Interest on debenture debt and short term loans	32,763,270	31,319,288
Amortization of discount on debenture debt	188,917	217,228
Debenture issue expenses	367,209	1,056,502
Administrative expenses	282,552	314,294
	<u>33,601,948</u>	<u>32,907,312</u>
Net Revenue	289,915	247,285
Reserve Fund, Beginning of Year	<u>5,077,462</u>	<u>4,830,177</u>
Reserve Fund, End of Year	<u>\$ 5,367,377</u>	<u>\$ 5,077,462</u>

See accompanying notes to the financial statements.

## Statement of Cash Flows

Year Ended March 31

	2006	2005
Cash provided by (used for)		
<b>Operations</b>		
Net revenue	\$ 289,915	\$ 247,285
Add (deduct) non-cash items		
Amortization of discount on loans to units	(188,299)	(216,518)
Amortization of discount on debenture debt	188,917	217,228
Amortization of premiums on investments	8,811	14,603
Change in non-cash working capital (Note 7)	3,381	(486)
Increase in accrued public service award	6,000	9,447
	<u>308,725</u>	<u>271,559</u>
<b>Investments</b>		
Issue of loans	(112,048,474)	(167,643,898)
Principal received on loans to units	81,038,164	70,303,478
Principal received on maturing investments	433,000	-
	<u>(30,577,310)</u>	<u>(97,340,420)</u>
<b>Financing</b>		
Issue of debentures	112,048,000	167,644,219
Principal payments on debenture debt	(80,999,290)	(70,256,012)
	<u>31,048,710</u>	<u>97,388,207</u>
<b>Increase (Decrease) in Cash</b>	<b>780,125</b>	<b>319,346</b>
<b>Cash, Beginning of Year</b>	<b>4,543,061</b>	<b>4,223,715</b>
<b>Cash, End of Year</b>	<b>\$ 5,323,186</b>	<b>\$ 4,543,061</b>

Cash includes cash and short term investments as follows:

	2006	2005
Cash	\$ 21,820	\$ 16,658
Short term investments	5,301,366	4,526,403
	<u>\$ 5,323,186</u>	<u>\$ 4,543,061</u>

See accompanying notes to the financial statements.

# Notes to the Financial Statements

March 31, 2006

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.

## 1. Summary of significant accounting policies

- A) Discounts on debenture debt and loans to units are being amortized over the life of the debentures payable and the loans receivable to which they relate, using the debentures outstanding method.
- B) The Reserve Fund was created from accumulated surpluses and interest earnings on funds which had been advanced by the Province of Nova Scotia and interest on other surplus monies. The purpose of the Reserve Fund is to provide a capital base for the Corporation, as well as to provide funds which may be required for administrative purposes and timing differences.
- C) Canadian generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management does not anticipate that actual results will differ materially from those estimates.
- D) The Corporation recognizes income and expenses on an accrual basis.
- E) Cash and cash equivalents include cash on hand, balances with banks, and short term deposits with original maturities of three months or less.

## 2. Financial instruments

### Fair value

The fair values of cash, accrued interest receivable, other receivables, accounts payable, accrued interest payable and principal due within one year on loans to units and debenture debt are assumed to approximate their carrying amounts because of their short term to maturity. The fair values of investments are assumed to approximate quoted market values as disclosed in the financial statements. As the Corporation is a special purpose entity, and there is no comparable outside market, the fair value of the loans receivable and debentures payable was not determinable.

### Interest rate risk

The Corporation's mandated rate of interest charged on loans to units is directly correlated to its cost of borrowing, thereby providing a hedge against equity erosion. As the Corporation normally holds the debentures to maturity, book values of the investments and debentures have not been adjusted to reflect the differences.

### Credit risk

Due to existing statutory provision for the recovery of any defaults by units, an allowance for doubtful accounts is not required.

It is management's opinion that the Corporation is not exposed to significant interest or credit risks arising from financial instruments.

## 3. Loans to units

- A) Loans to units are made on the security of their debentures, due in annual instalments for periods up to a maximum of twenty years. Interest rates on the loans range from 1.0% to 8.0%.
- B) Principal payments receivable in each of the next five years are as follows:

2007	\$	87,451,864
2008	\$	84,011,391
2009	\$	69,931,914
2010	\$	65,351,824
2011	\$	51,823,342

## 4. Trust funds under administration

The Corporation has no Trust Funds under its administration for the year ended March 31, 2006.

## 5. Debentures payable

A) The debenture debt outstanding at March 31, 2006 totalling \$621,069,953 (2005 - \$590,021,242) is in Canadian funds and is fully guaranteed by the Province of Nova Scotia, with the exception of Series "AT" which is a private placement.

Series	Date Issued	Maturity Date	Interest Rate	Debt Outstanding
AK*	May 14/96	2006	8.000	\$ 12,675,000
AL	Oct. 28/96	2006	7.500	5,739,000
AM*	May 12/97	2006 to 2007	7.000	14,758,000
AN*	Oct. 17/97	2006 to 2007	6.000-6.250	17,215,000
AP*	Jan. 30/98	2007 to 2019	5.625-6.125	34,114,000
AQ	May 15/98	2006 to 2008	5.375-5.500	13,299,000
AR*	Dec. 1/98	2006 to 2008	5.500-5.625	21,584,000
AS*	May 17/99	2006 to 2009	5.250-5.375	21,869,000
AT	May 28/99	2006 to 2015	1.000	1,687,500
AU*	Dec. 22/99	2006 to 2009	6.625-6.750	19,141,000
AV*	June 1/00	2006 to 2010	6.75-6.875	12,895,000
AW*	Nov. 9/00	2006 to 2010	6.125-6.375	13,744,000
AX*	May 29/01	2006 to 2011	5.625-6.250	19,886,000
AY*	Nov. 7/01	2006 to 2011	5.000-6.000	12,297,000
AZ*	May 15/02	2006 to 2012	5.125-6.125	39,387,000
BA*	Nov. 7/02	2006 to 2017	4.375-6.000	22,615,000
BB*	Jan. 9/03	2006 to 2023	5.913	10,184,453
BC *	May 28/03	2006 to 2018	4.125-5.750	41,154,000
BD *	Oct. 15/03	2006 to 2018	3.500-5.375	18,194,000
BE*	June 10/04	2006 to 2019	3.250-5.750	24,027,000
BF*	Sept 1/04	2006 to 2024	3.525-5.940	104,500,000
BG*	Nov 25/04	2006 to 2019	3.475-5.325	28,057,000
BH *	June 1/05	2006 to 2020	2.970-4.880	53,905,000
BI *	Nov 22/05	2006 to 2020	3.630-4.830	58,143,000
				<u>\$ 621,069,953</u>

\* Placed directly with the Province of Nova Scotia.

Interest is payable semi-annually, except for Series "AT", which is payable annually.

B) Principal payments due in each of the next five years are as follows:

2007	\$	87,177,723
2008	\$	83,987,383
2009	\$	69,924,342
2010	\$	65,404,679
2011	\$	51,821,477

## 6. Income taxes

The Corporation is not subject to provincial or federal income taxes.

## 7. Change in non-cash working capital

	2006	2005
Accrued interest receivable	\$ 106,123	\$ 294,875
HST receivable	(179)	(164)
Accounts payable	(2,059)	(4,955)
Accrued interest payable	(100,504)	(290,242)
	<u>\$ 3,381</u>	<u>\$ (486)</u>

## 8. Employee obligations

### Public service awards

As at March 31, 2006, the Corporation has recorded a liability in the amount of \$80,520 (2005 - \$74,520) in respect of the provincial public service award for the employees of the Corporation.

### Employee future benefits/pension

Permanent employees are members of the Nova Scotia Public Service Superannuation Plan. The cost of pension benefits is the responsibility of the Province of Nova Scotia and accordingly no provision is included in the Corporation's financial statements for pension related amounts. The pension related assets and liabilities are accounted for in the Public Accounts of Nova Scotia.

## 9. Investments

The Corporation holds short term investments. The investments mature at various intervals during 2006 with interest rates ranging from 3.550% to 4.50%.



**Nova Scotia**