

**2011**  
***Annual Report***

***New Brunswick***  
***Municipal Finance***  
***Corporation***



## **2011 Annual Report**

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## Table of Contents

New Brunswick Municipal Finance Corporation	
Legislation.....	1
Purpose.....	1
Administration.....	1
Directors.....	2
Officers of the Corporation.....	2
Fiscal Year.....	2
Protection for Investors.....	3
Financing Activity in 2011.....	4
Schedules of Loans to Municipalities – Cities and Towns.....	7
Schedules of Loans to Municipalities – Villages.....	8
Schedules of Loans to Municipalities – Villages Continued and Rural Communities	9
Schedules of Loans to Municipalities – Municipal Enterprises.....	10
Financial Statements.....	11
Statement of Financial Position.....	14
Statement of Comprehensive Income, Statement of Changes in Equity.....	15
Statement of Cash Flows.....	16
Notes to Financial Statements.....	17





# **New Brunswick Municipal Finance Corporation**

## **Legislation**

The New Brunswick Municipal Finance Corporation (the "Corporation") was established by the *New Brunswick Municipal Finance Corporation Act*, Chapter N-6.2 of the Acts of New Brunswick 1982, (the "Act") which came into force on February 1, 1983.

## **Purpose**

The purpose of the Corporation is to provide financing for municipalities and municipal enterprises through a central borrowing authority.

The Act prohibits a municipality or municipal enterprise from issuing and selling securities other than to the New Brunswick Municipal Finance Corporation, the Government of Canada, the Province of New Brunswick, a reserve fund established by the municipality under section 90 or 189 of the *Municipalities Act*, a sinking fund established by the municipality under section 7 of the *Municipal Debenture Act* or a trust fund of which it is a trustee.

An exception is made in the case of securities having a term to maturity of less than one year, which a municipality or municipal enterprise may issue to a chartered bank, trust company or credit union as evidence of a temporary loan.

## **Administration**

The Corporation consists of six directors appointed by the Lieutenant-Governor in Council.

## **Directors**

Jane Garbutt	Deputy Minister Finance Province of New Brunswick
Leonard Lee-White	Assistant Deputy Minister Treasury Division Province of New Brunswick
Richard Luton	Managing Director Capital Markets Treasury Division Province of New Brunswick
Sylvie Levesque-Finn	Deputy Minister Local Government Province of New Brunswick
John Martin	Chief Financial Officer / Treasurer City of Moncton
Bernadine Maillet-LeBlanc	General Manager Village of Saint-Antoine

## **Officers of the Corporation**

Jane Garbutt	President
Leonard Lee-White	Vice President
Catherine Mosher	Secretary-Treasurer

Administration is provided by officials of the Province of New Brunswick.

## **Fiscal Year**

The fiscal year of the Corporation is from January 1 to December 31.

## **Protection for Investors**

Before applying to the Corporation for financing of a capital expense, all municipalities and municipal enterprises, except for the City of Saint John, must obtain the prior approval of the Minister of Local Government to incur the capital expense under the terms of the *Municipal Capital Borrowing Act*.

Under the provisions of the Act, the Lieutenant-Governor in Council may guarantee the payment of the principal, premium, if any, and interest on any securities issued by the Corporation.

The Act also obligates the Minister of Local Government to pay to the Corporation, upon request, any amounts payable to the Corporation by municipalities or municipal enterprises that are in default.

## Financing Activity in 2011

In 2011, the Corporation sold one debenture privately to the Federation of Canadian Municipalities and two issues of debentures on the Canadian bond market. All issues were guaranteed as to principal and interest by the Province of New Brunswick. The proceeds, after allowing for expenses of issue, were loaned to municipalities and municipal enterprises against the security of debentures payable to the Corporation. The public series were issued in the form of fully registered global serial certificates registered in the name of The Canadian Depository for Securities Limited ("CDS") and are held by CDS.

The details of the issues are as follows:

### Series FCM 10097

<b>Principal Amount</b>	\$4,000,000
<b>Date of Issue</b>	March 31, 2011
<b>Date of Maturity</b>	March 31, 2012-2031

<u>Year of Maturity</u>	<u>Principal</u> \$	<u>Interest</u> %
2012	\$4,000,000	2.060
2013	\$3,800,000	2.060
2014	\$3,600,000	2.060
2015	\$3,400,000	2.060
2016	\$3,200,000	2.060
2017	\$3,000,000	2.060
2018	\$2,800,000	2.060
2019	\$2,600,000	2.060
2020	\$2,400,000	2.060
2021	\$2,200,000	2.060
2022	\$2,000,000	2.060
2023	\$1,800,000	2.060
2024	\$1,600,000	2.060
2025	\$1,400,000	2.060
2026	\$1,200,000	2.060
2027	\$1,000,000	2.060
2028	\$800,000	2.060
2029	\$600,000	2.060
2030	\$400,000	2.060
2031	\$200,000	2.060

## Series BE

<b>Principal Amount</b>	\$115,683,000 *
<b>Date of Issue</b>	May 27, 2011
<b>Date of Maturity</b>	May 27, 2012-2021
<b>Underwriters</b>	A syndicate managed by: CIBC World Markets Inc. RBC Capital Markets
<b>Registrar and Paying Agent</b>	Minister of Finance, Province of New Brunswick

<u>Year of Maturity</u>	<u>Principal</u> \$	<u>Interest</u> %
2012	7,794,000	1.650
2013	7,896,000	2.100
2014	7,768,000	2.500
2015	7,894,000	2.850
2016	8,084,000	3.150
2017	7,381,000	3.450
2018	7,567,000	3.700
2019	7,767,000	3.900
2020	7,986,000	4.100
2021	45,546,000	4.250

\* A portion of Series BE (\$65,419,000) was sold privately.

## Series BF

<b>Principal Amount</b>	\$50,813,000
<b>Date of Issue</b>	December 5, 2011
<b>Date of Maturity</b>	December 5, 2012-2021
<b>Underwriters</b>	A syndicate managed by: RBC Capital Markets CIBC World Markets Inc.
<b>Registrar and Paying Agent</b>	Minister of Finance, Province of New Brunswick

<u>Year of Maturity</u>	<u>Principal</u> \$	<u>Interest</u> %
2012	4,492,000	1.350
2013	4,556,000	1.400
2014	3,605,000	1.650
2015	3,630,000	1.900
2016	3,689,000	2.200
2017	3,176,000	2.550
2018	3,236,000	2.850
2019	3,307,000	3.100
2020	3,385,000	3.300
2021	17,737,000	3.450

## Schedule of Loans to Municipalities – Cities and Towns

	2011			Principal Outstanding Dec. 31, 2011
	Principal Outstanding Dec. 31, 2010	Principal Repaid	New Loans	
<b>Cities</b>				
Bathurst	\$ 26,127,000	\$ 3,334,000	\$8,355,000	\$ 31,148,000
Campbellton	13,580,000	1,807,000	1,482,000	13,255,000
Dieppe	81,084,000	6,976,000	5,210,000	79,318,000
Edmundston	43,017,000	5,412,000	22,516,000	60,121,000
Fredericton	58,779,000	2,368,000	0	56,411,000
Miramichi	27,652,000	4,361,000	4,764,000	28,055,000
Moncton	129,140,000	20,720,000	27,779,000	136,199,000
Saint John	135,207,000	15,030,000	56,500,000	176,677,000
	<u>\$514,586,000</u>	<u>\$ 60,008,000</u>	<u>\$126,606,000</u>	<u>\$581,184,000</u>
<b>Towns</b>				
Beresford	\$4,087,000	\$ 607,000	\$ 50,000	\$3,530,000
Bouctouche	413,000	45,000	0	368,000
Caraquet	4,279,000	713,000	1,287,000	4,853,000
Dalhousie	5,329,000	829,000	1,000,000	5,500,000
Florenceville-Bristol	0	0	736,000	736,000
GrandBay/Westfield	1,900,000	198,000	205,000	1,907,000
Grand Falls	17,357,000	1,419,000	708,000	16,646,000
Hampton	4,541,000	726,000	640,000	4,455,000
Hartland	998,000	105,000	0	893,000
Lamèque	978,000	290,000	328,000	1,016,000
Nackawic	710,000	76,000	78,000	712,000
Oromocto	0	0	527,000	527,000
Quispamsis	9,078,000	2,120,000	15,631,000	22,589,000
Richibucto	1,072,000	84,000	0	988,000
Riverview	34,227,000	3,560,000	1,500,000	32,167,000
Rothsay	9,528,000	3,824,000	2,074,000	7,778,000
Sackville	6,127,000	1,055,000	1,317,000	6,389,000
Saint-Leonard	1,855,000	366,000	1,480,000	2,969,000
Saint-Quentin	2,196,000	235,000	0	1,961,000
Shediac	5,757,000	1,393,000	351,000	4,715,000
Shippagan	5,261,000	624,000	288,000	4,925,000
St. Andrews	3,917,000	732,000	504,000	3,689,000
St. George	222,000	55,000	0	167,000
St. Stephen	7,960,000	951,000	0	7,009,000
Sussex	1,335,000	138,000	398,000	1,595,000
Tracadie-Sheila	5,591,000	532,000	830,000	5,889,000
Woodstock	2,754,000	208,000	0	2,546,000
	<u>\$ 137,472,000</u>	<u>\$ 20,885,000</u>	<u>\$ 29,932,000</u>	<u>\$ 146,519,000</u>

## Schedule of Loans to Municipalities – Villages

	2011			Principal Outstanding Dec. 31, 2011
	Principal Outstanding Dec. 31, 2010	Principal Repaid	New Loans	
<b>Villages</b>				
Alma	\$ 1,273,000	\$ 37,000	\$ 252,000	\$ 1,488,000
Atholville	2,792,000	310,000	0	2,482,000
Baker Brook	607,000	78,000	0	529,000
Balmoral	1,412,000	184,000	450,000	1,678,000
Bas-Caraquet	494,000	119,000	0	375,000
Bath	646,000	86,000	0	560,000
Belledune	3,081,000	342,000	672,000	3,411,000
Bertrand	688,000	73,000	0	615,000
Blacks Harbour	1,179,000	84,000	0	1,095,000
Blackville	498,000	22,000	0	476,000
Bristol	308,000	43,000	0	265,000
Canterbury	212,000	21,000	0	191,000
Cap-Pelé	1,879,000	258,000	88,000	1,709,000
Centreville	191,000	43,000	0	148,000
Charlo	692,000	121,000	952,000	1,523,000
Chipman	531,000	110,000	0	421,000
Clair	1,531,000	89,000	131,000	1,573,000
Doaktown	979,000	187,000	69,000	861,000
Dorchester	520,000	25,000	0	495,000
Drummond	352,000	84,000	320,000	588,000
Eel River Crossing	240,000	27,000	150,000	363,000
Florenceville	766,000	250,000	0	516,000
Fredericton Junction	764,000	73,000	480,000	1,171,000
Gagetown	411,000	43,000	0	368,000
Grand Manan	1,819,000	145,000	0	1,674,000
Grande-Anse	243,000	44,000	124,000	323,000
Harvey	125,000	11,000	0	114,000
Hillsborough	561,000	85,000	0	476,000
Kedgwick	927,000	76,000	0	851,000
Lac-Baker	293,000	31,000	60,000	322,000
Le Goulet	284,000	16,000	0	268,000
Maisonnette	198,000	12,000	0	186,000
McAdam	411,000	65,000	0	346,000
Memramcook	6,247,000	248,000	0	5,999,000
Millville	187,000	23,000	0	164,000
Minto	2,866,000	175,000	0	2,691,000
Néguac	510,000	104,000	324,000	730,000



## Schedule of Loans to Municipalities – Villages Continued and Rural Communities

	Principal Outstanding Dec. 31, 2010	2011		Principal Outstanding Dec. 31, 2011
		Principal Repaid	New Loans	
<b>Villages Continued</b>				
New Maryland	\$ 4,586,000	\$ 622,000	\$ 3,000,000	\$ 6,964,000
Nigadoo	441,000	66,000	200,000	575,000
Norton	127,000	30,000	0	97,000
Paquetville	1,112,000	125,000	200,000	1,187,000
Petitcodiac	1,670,000	110,000	0	1,560,000
Petit-Rocher	1,824,000	212,000	14,000	1,626,000
Plaster Rock	2,350,000	108,000	0	2,242,000
Pointe-Verte	206,000	26,000	0	180,000
Port Elgin	179,000	18,000	0	161,000
Rexton	361,000	139,000	85,000	307,000
Riverside-Albert	1,048,000	67,000	0	981,000
Rivière-Verte	600,000	35,000	45,000	610,000
Rogersville	828,000	70,000	120,000	878,000
Saint-Anne-de- Madawaska	362,000	97,000	340,000	605,000
Saint-Marie-Saint Raphaël	678,000	135,000	0	543,000
Saint-Antoine	2,241,000	565,000	1,039,000	2,715,000
Saint-François-de- Madawaska	890,000	79,000	250,000	1,061,000
Saint-Isidore	358,000	45,000	0	313,000
Saint-Léolin	98,000	11,000	0	87,000
Saint-Louis-de-Kent	666,000	104,000	0	562,000
Salisbury	1,132,000	84,000	0	1,048,000
St. Martins	96,000	23,000	0	73,000
Stanley	225,000	58,000	0	167,000
Sussex Corner	931,000	93,000	0	838,000
Tide Head	144,000	32,000	0	112,000
	<b>\$ 59,870,000</b>	<b>\$ 6,698,000</b>	<b>\$ 9,365,000</b>	<b>\$ 62,537,000</b>
<b>Rural Communities</b>				
Beaubassin-est	\$ 18,000	\$ 9,000	\$ 0	\$ 9,000
Saint-André	442,000	34,000	200,000	608,000
Upper Miramichi	0	0	200,000	200,000
	<b>\$ 460,000</b>	<b>\$ 43,000</b>	<b>\$ 400,000</b>	<b>\$ 817,000</b>

## Schedule of Loans to Municipalities – Municipal Enterprises

	Principal Outstanding Dec. 31, 2010	2011		Principal Outstanding Dec. 31, 2011
		Principal Repaid	New Loans	
<b>Municipal Enterprises</b>				
BNPP Police Commission	57,000	15,000	0	42,000
COGEDES	62,000	30,000	0	32,000
COGERNO	0	0	1,200,000	1,200,000
Allardville Sewerage Commission	34,000	34,000	0	0
Fredericton Area Pollution Control Commission	32,000	32,000	0	0
Fredericton Regional Solid Waste Commission	2,180,000	493,000	177,000	1,864,000
Fundy Region Solid Waste Commission	7,681,000	1,755,000	0	5,926,000
The Nepisiguit-Chaleur Solid Waste Commission	1,072,000	241,000	284,000	1,115,000
Northumberland Solid Waste Commission	61,000	61,000	0	0
Restigouche Solid Waste Corporation	311,000	28,000	0	283,000
Rothesay Regional Joint Board of Police Commissioner	1,833,000	90,000	0	1,743,000
The Greater Shediac Sewerage Commission	1,534,000	72,000	2,532,000	3,994,000
Westmorland-Albert Solid Waste Corp.	2,015,000	471,000	0	1,544,000
	<b>\$ 16,872,000</b>	<b>\$ 3,322,000</b>	<b>\$ 4,193,000</b>	<b>\$ 17,743,000</b>
<b>Grand Total</b>	<b>\$ 729,260,000</b>	<b>\$ 90,956,000</b>	<b>\$170,496,000</b>	<b>\$ 808,800,000</b>

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FINANCIAL STATEMENTS

**NEW BRUNSWICK  
MUNICIPAL FINANCE CORPORATION**

31 DECEMBER 2011

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# AUDITOR GENERAL OF NEW BRUNSWICK

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
New Brunswick Municipal Finance Corporation

I have audited the accompanying financial statements of the New Brunswick Municipal Finance Corporation, which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of comprehensive income, changes in equity and cash flows for the years ending December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting 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.

### *Auditor's Responsibility*

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

### *Opinion*

In my opinion, the financial statements present fairly, in all material respects, the financial position of the New Brunswick Municipal Finance Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ending December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Kim MacPherson, CA  
Auditor General

Fredericton, N.B.  
September 20, 2012

## NEW BRUNSWICK MUNICIPAL FINANCE CORPORATION

### Statement of financial position

*In Canadian dollars*

	Note	31 December 2011	31 December 2010	1 January 2010
<b>Assets</b>				
Cash and cash equivalents	3.2.4, 11	\$ 1,200,992	\$ 1,034,275	\$ 1,015,947
Accounts receivable	3.2.2	-	10,000	10,000
Accrued interest receivable from municipalities and municipal enterprises		3,686,973	3,886,101	4,110,978
Accrued investment income receivable		671	5,268	2,639
Long term investments	5	653,099	812,832	882,431
Loans to municipalities and municipal enterprises	6	803,683,254	725,519,145	682,949,932
<b>Total assets</b>		<b>809,224,989</b>	<b>731,267,621</b>	<b>688,971,927</b>
<b>Liabilities</b>				
Accounts payable		2,395	11,878	2,285
Accrued interest payable on debenture debt		3,700,403	3,902,995	4,129,512
Debenture debt	7	804,320,466	726,326,647	683,840,508
<b>Total liabilities</b>		<b>808,023,264</b>	<b>730,241,520</b>	<b>687,972,305</b>
<b>Equity</b>				
Retained earnings		1,201,725	1,026,101	999,622
<b>Total equity</b>		<b>1,201,725</b>	<b>1,026,101</b>	<b>999,622</b>
<b>Total liabilities and equity</b>		<b>\$ 809,224,989</b>	<b>\$ 731,267,621</b>	<b>\$ 688,971,927</b>

The accompanying notes are an integral part of these Financial Statements.

Approved by the Board and authorized for issue on 20 September 2012

..... Director

..... Director

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## NEW BRUNSWICK MUNICIPAL FINANCE CORPORATION

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### Statement of comprehensive income

For the year ended 31 December

*In Canadian dollars*

	Note	2011	2010
<b>Revenue</b>			
Interest income	3.1	\$ 34,134,917	32,234,655
Subsidy received on debenture debt	10	786,416	-
Other revenue	8	89,471	-
		35,010,804	32,234,655
<b>Expense</b>			
Interest expense		33,878,483	32,044,054
Subsidy paid on loans to municipalities and municipal enterprises	10	786,416	-
Other expenses	9	170,281	164,122
		34,835,180	32,208,176
Total comprehensive income		\$ 175,624	26,479

### Statement of changes in equity

For the year ended 31 December

*In Canadian dollars*

	2011	2010
Retained earnings, 1 January	\$ 1,026,101	999,622
Total comprehensive income	175,624	26,479
Retained earnings, 31 December	\$ 1,201,725	1,026,101

The accompanying notes are an integral part of these Financial Statements.

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## NEW BRUNSWICK MUNICIPAL FINANCE CORPORATION

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**Statement of cash flows**  
**For the year ended 31 December**  
*In Canadian dollars*

	2011	2010
<b>Operating activities</b>		
Cash received from operations	\$ 339,215	\$ 188,657
Cash paid from operations	(169,765)	(164,530)
Interest paid on debenture debt	(33,178,655)	(31,509,912)
Interest received from municipalities and municipal enterprises	33,138,803	31,466,192
Interest received from investments	17,119	5,921
	146,717	(13,672)
Cash flows from operating activities		
<b>Financing activities</b>		
Proceeds on sale of debentures	169,005,815	124,534,479
Funds retained for debenture issue expense	(249,744)	(188,655)
Principal paid on debenture debt	(91,128,000)	(82,809,000)
	77,628,071	41,536,824
Cash flows from financing activities		
<b>Investing activities</b>		
Loans to municipalities and municipal enterprises	(168,756,071)	(124,345,824)
Principal repayments made by municipalities and municipal enterprises	90,956,000	82,734,000
Proceeds from maturity of long term investments	192,000	107,000
	(77,608,071)	(41,504,824)
Cash flows from investing activities		
Increase in cash and cash equivalents	166,717	18,328
Cash and cash equivalents at beginning of year	1,034,275	1,015,947
	\$ 1,200,992	\$ 1,034,275
Cash and cash equivalents at end of year		

The accompanying notes are an integral part of these Financial Statements.



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**NEW BRUNSWICK MUNICIPAL FINANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
31 DECEMBER 2011**

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**1. Reporting entity**

The New Brunswick Municipal Finance Corporation ("the Corporation") is a Crown Corporation of the Province of New Brunswick, and was established under the New Brunswick Municipal Finance Corporation Act ("the Act"), which came into force on 1 February 1983. The purpose of the Corporation is to provide financing for municipalities and municipal enterprises through a central borrowing authority. The Corporation is not subject to income taxes because it is a public sector entity.

**2. Basis of presentation**

**2.1 Statement of compliance**

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB"). These are the Corporation's first financial statements prepared under IFRS, and IFRS1 *First Time Adoption of International Financial Reporting Standards* has been applied. Further information on the transition to IFRS can be found in note 12.

**2.2 Basis of Measurement**

The financial statements have been prepared under the historical cost convention.

**2.3 Functional and presentation currency**

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

**2.4 Use of estimates and judgements**

The preparation of the financial statements in conformity with IFRS requires management to exercise its judgment and make assumptions in the application of the Corporation's accounting policies.

Significant items in these financial statements that have been measured using estimates are the fair value at initial recognition of subsidized financing (see note 10), and the fair value of the long-term investments disclosed in note 4.1. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

**3. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below, and have been consistently applied to all the years presented and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise stated.

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**NEW BRUNSWICK MUNICIPAL FINANCE CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 DECEMBER 2011**

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**3. Summary of significant accounting policies (continued)**

**3.1 Revenue recognition**

The Corporation records income on all financial assets using the effective interest method. Any gains or losses realized on the sale of financial assets prior to maturity are recognized in profit or loss during the period in which they are sold.

The portion of the debenture issue proceeds that is retained by the Corporation is recorded as revenue in the year in which the related debenture is issued.

In cases of subsidized financing, the difference between the fair value of the debenture issue and the proceeds received is recorded as revenue in the year in which the related debenture is issued.

**3.2 Financial Instruments**

Financial assets and financial liabilities are initially recognized at fair value, plus any directly attributable transaction costs, when the Corporation becomes a party to the contractual rights and obligations of the financial instrument. Fair value represents the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset have expired or have been transferred, and the Corporation has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligation has been discharged, cancelled, or has expired.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

At initial recognition, the Corporation classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired.

**3.2.1 Financial assets at fair value through profit or loss**

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Subsequent to initial recognition, fair value fluctuations are included in profit or loss. The Corporation has no financial assets classified as fair value through profit or loss.

**3.2.2 Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

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**NEW BRUNSWICK MUNICIPAL FINANCE CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 DECEMBER 2011**

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**3. Summary of significant accounting policies (continued)**

Loans and receivables comprise loans to municipalities and municipal enterprises, and other receivables.

**3.2.3 Held-to-maturity investments**

Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

The Corporation's held-to-maturity financial assets consist of long term investments. Long term investments consist of securities issued or guaranteed by the Government of Canada, or any provincial government of Canada that have a term-to-maturity of greater than one-year when acquired. These securities are intended to be held to maturity.

**3.2.4 Cash and cash equivalents**

Cash and cash equivalents includes deposits held at call with banks, and other short-term highly liquid investments with original maturities of less than one-year. Due to the short-term nature, fair value is assumed to represent the carrying value, which is historical cost.

**3.2.5 Accounts payable, interest payable, and debenture debt**

Accounts payable, interest payable and debenture debt are classified as financial liabilities. Such liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest rate method.

**3.3 Impairment of financial assets**

The Corporation assesses at the end of each reporting period whether there is objective evidence that individual financial assets are impaired. A financial asset is impaired, and impairment losses are incurred, only if there is objective evidence as a result of one or more events that occurred after the initial recognition of the asset which has an impact on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor or indications that a debtor or issuer will enter into bankruptcy.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against the asset. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

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**NEW BRUNSWICK MUNICIPAL FINANCE CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 DECEMBER 2011**

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**3. Summary of significant accounting policies (continued)**

**3.4 New standards and interpretations not yet adopted**

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011 and have not been applied in preparing these financial statements. IFRS 9 Financial Instruments, which becomes mandatory for the Corporation's 2015 financial statements may have a significant impact on the classification and measurement of financial assets. The extent of the impact has not been determined.

**4. Financial instruments**

**4.1 Fair value**

The fair values of short-term investments, accrued interest receivable, investment income receivable, accounts payable and accrued interest payable are assumed to approximate their carrying amounts because of their short term to maturity.

Long-term investments are classified in a hierarchy of three levels depending on the inputs used to determine fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets and the lowest priority to unobservable inputs used in determining the fair value. If different levels of inputs are used to measure the fair value of an investment, the classification is based on the lowest level input used. The three levels of the fair value hierarchy are as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly; and

Level 3 - inputs for the assets or liabilities that are not based on observable market data.

The fair value of long-term investments at 31 December 2011 is \$678,804 (2010 - \$849,559). These valuations are derived from level 2 inputs. No level 3 inputs have been used to determine fair value.

The issue and repayment terms of the loans to municipalities and municipal enterprises and the debenture debt are in most cases identical, and in each case the asset and liability is intended to be held to maturity. For these two reasons, the fair value of loans and receivables is considered to be the equivalent of the amortized cost.

**4.2 Financial risk management**

The Corporation follows a conservative investment policy when investing cash in order to mitigate financial risk. Financial risk on loans to municipalities and municipal enterprises is mitigated by the provisions of the Act.

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**NEW BRUNSWICK MUNICIPAL FINANCE CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 DECEMBER 2011**

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**4. Financial instruments (continued)**

**4.2.1 Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments.

The Corporation's rate of interest charged on loans to municipalities and municipal enterprises and interest paid on outstanding debenture debt are fixed as stated in legal agreements. Any change in market interest rates during the period would have no effect on the cash flows of the Corporation. The fair values of the debenture debt and loans to municipalities and municipal enterprises would be affected by changes in market interest rates; however, this is mitigated by the offsetting nature of this arrangement. It is management's opinion that the Corporation has minimal exposure to interest rate risk.

**4.2.2 Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The following carrying amounts of financial assets represent the maximum credit exposure at the reporting date:

	<i>31 Dec</i> <i>2011</i>	<i>31 Dec</i> <i>2010</i>	<i>1 Jan</i> <i>2010</i>
Loans to municipalities and municipal enterprises	<b>\$ 803,683,254</b>	\$ 725,519,145	\$ 682,949,932
Accounts receivable	-	10,000	10,000
Long term investments	<b>653,099</b>	812,832	882,431
Accrued interest receivable	<b>3,686,973</b>	8,886,101	4,110,978
Accrued investment income receivable	<b>671</b>	6,268	2,639
Cash and cash equivalents	<b>1,200,992</b>	1,034,275	1,015,947
	<b><u>\$ 809,224,989</u></b>	<u>\$ 731,267,621</u>	<u>\$ 688,971,927</u>

No financial assets are past due or impaired as at the financial statement date.

Section 14 of the Act provides for the recovery of any defaults by municipalities and municipal enterprises from the Minister of Local Government, thereby mitigating credit risk on the loans to municipalities and municipal enterprises.

The Corporation's long-term investment portfolio is limited to securities issued or guaranteed by the Government of Canada, or any provincial government of Canada. The Corporation's cash equivalent portfolio is limited to treasury bills issued by the Government of Canada, or any provincial government of Canada, as well as deposit receipts, deposit notes, certificates of deposit, acceptances and other

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**NEW BRUNSWICK MUNICIPAL FINANCE CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 DECEMBER 2011**

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**4. Financial instruments (continued)**

similar instruments issued or endorsed by any Canadian chartered bank.

**4.2.3 Liquidity risk**

Liquidity risk is the risk of not being able to settle or meet an obligation on time or at a reasonable price.

The Corporation's financial liabilities classified by period in which they are due are:

31 December 2011	Carrying amount	Contractual amount	1 yr or less	2 - 5 yrs	more than 5 yrs
Debenture debt	\$ 804,320,466	\$ 809,439,000	\$ 97,977,000	\$ 376,622,000	\$ 334,840,000
Interest payable	3,700,403	3,700,403	3,700,403	-	-
Accounts payable	2,395	2,395	2,395	-	-
	<u>\$ 808,023,264</u>	<u>\$ 813,141,798</u>	<u>\$ 101,679,798</u>	<u>\$ 376,622,000</u>	<u>\$ 334,840,000</u>

31 December 2010	Carrying amount	Contractual amount	1 yr or less	2 - 5 yrs	more than 5 yrs
Debenture debt	\$ 726,326,647	\$ 730,071,000	\$ 91,128,000	\$ 331,412,000	\$ 307,531,000
Interest payable	3,902,995	3,902,995	3,902,995	-	-
Accounts payable	11,878	11,878	11,878	-	-
	<u>\$ 730,241,520</u>	<u>\$ 733,985,873</u>	<u>\$ 95,042,873</u>	<u>\$ 331,412,000</u>	<u>\$ 307,531,000</u>

The Corporation's payment terms on loans to municipalities and municipal enterprises are equal to the terms of the debenture debt, and cash resources are monitored to ensure obligations are met. The amount of principal to be paid on debenture debt by year is disclosed in note 7. The amount of principal to be received from loans to municipalities and municipal enterprises by year is disclosed in note 6.

It is management's opinion that the Corporation is not exposed to significant liquidity risk as it is not expected that the cash flows from loan collectibles or debt repayments could occur significantly earlier, or at significantly different amounts than expected.

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**NEW BRUNSWICK MUNICIPAL FINANCE CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 DECEMBER 2011**

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**4. Financial instruments (continued)**

**4.2.4 Currency risk**

The Corporation is not subject to currency risk. The functional currency is the Canadian dollar and all transactions are denominated in Canadian dollars.

**5. Long-term investments**

Long-term investments are intended to be held to maturity, and are measured at amortized cost. The investments held were purchased at a discount, and pay the face value at maturity, with no interest paid in the interim. The investments at the financial statement date are as follows:

	within 1 yr	1-3 yrs	<b>31 Dec 2011</b>	31 Dec 2010	1 Jan 2010
Provincial	\$ -	\$ 375,036	<b>\$ 375,036</b>	\$ 545,364	\$ 625,154
Provincial guaranteed	278,063	-	<b>278,063</b>	267,468	257,277
	<u>\$ 278,063</u>	<u>\$ 375,036</u>	<u><b>\$ 653,099</b></u>	<u>\$ 812,832</u>	<u>\$ 882,431</u>

**6. Loans to municipalities and municipal enterprises**

Loans to municipalities and municipal enterprises are made on the security of their debentures due in annual instalments or periods up to a maximum of thirty years. The terms of the loans are in almost all cases identical to the terms of the debenture debt, which are summarized in note 7. These loans are initially measured at fair value and subsequently reflected at amortized cost using the effective interest method. Lending rates on loans are fixed for borrowing terms commencing with the initial period of the loan. The Corporation conducts an annual evaluation of loan impairment to determine if an impairment write-down is necessary. No impairments have been recognized in the current or previous year.

The aggregate principal payments recoverable from municipalities and municipal enterprises aggregated to maturity are as follows:

2012	\$ 97,709,000
2013	90,128,000
2014	101,875,000
2015	89,496,000
2016	94,752,000
2017 and thereafter	<u>334,840,000</u>
	\$ 808,800,000
Unamortized discount	<u>(5,116,746)</u>
	<b>\$ 803,683,254</b>

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**NEW BRUNSWICK MUNICIPAL FINANCE CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 DECEMBER 2011**

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**7. Debenture debt**

The aggregate debenture debt aggregated to maturity are as follows:

2012	\$ 97,977,000
2013	90,499,000
2014	101,875,000
2015	89,496,000
2016	94,752,000
2017 and thereafter	<u>334,840,000</u>
	\$ 809,439,000
Unamortized discount	<u>(5,118,534)</u>
	\$ 804,320,466

Under the provisions of the Act, the Lieutenant-Governor in Council may guarantee the payment of the principal, premium, if any, and interest on any securities issued by the Corporation. The following debenture debt outstanding at 31 December is in Canadian funds and is fully guaranteed by the Lieutenant-Governor in Council:



**NEW BRUNSWICK MUNICIPAL FINANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
31 DECEMBER 2011**

**7. Debenture debt (continued)**

Series	Date of Issue	Maturity Date	Interest Rates	Original Amount	Outstanding		
					31 Dec 2011	31 Dec 2010	1 Jan 2010
"AI"	10 Aug. 2000	10 Aug. 2001 to 2010	6.1% to 6.4%	31,887,000	\$ -	\$ -	\$ 5,627,000
"AJ"	19 Dec. 2000	19 Dec. 2001 to 2010	6.0% to 6.125%	27,801,000	-	-	5,283,000
"AK"	17 July 2001	17 July 2002 to 2011	4.45% to 6.2%	28,920,000	-	7,277,000	9,855,000
"AL"	30 Nov. 2001	30 Nov. 2002 to 2011	2.45% to 5.5%	42,281,000	-	8,811,000	12,703,000
"AM"	12 July 2002	12 July 2003 to 2012	3.375% to 5.75%	52,016,000	<b>11,609,000</b>	16,283,000	20,787,000
**"AN"	23 Dec. 2002	23 Dec. 2003 to 2012	3.1% to 5.6%	24,625,000	<b>4,724,000</b>	7,023,000	9,204,000
"AO"	28 July 2003	28 July 2004 to 2013	3.05% to 5.0%	41,532,000	<b>12,611,000</b>	16,589,000	20,415,000
"AP"	17 Dec. 2003	17 Dec. 2004 to 2013	2.75% to 5.125%	51,873,000	<b>13,809,000</b>	18,773,000	23,601,000
**"AQ"	8 July 2004	8 July 2005 to 2014	2.75% to 5.50%	27,040,000	<b>12,010,000</b>	14,192,000	16,270,000
"AR"	16 Dec. 2004	16 Dec. 2005 to 2014	2.75% to 4.80%	78,919,000	<b>41,528,000</b>	47,113,000	52,524,000
**"AS"	7 July 2005	7 July 2006 to 2015	2.85% to 4.35%	21,781,000	<b>11,593,000</b>	13,112,000	14,894,000
"AT"	7 Dec. 2005	7 Dec. 2006 to 2015	3.75% to 4.375%	75,023,000	<b>42,816,000</b>	47,853,000	53,699,000
**"AU"	13 June 2006	13 June 2007 to 2016	4.15% to 4.70%	29,249,000	<b>16,485,000</b>	19,243,000	21,907,000
**"AV"	1 Dec. 2006	1 Dec. 2007 to 2016	4.15% to 4.45%	105,451,000	<b>71,317,000</b>	78,575,000	85,639,000
**"AW"	25 May 2007	25 May 2008 to 2017	4.30% to 4.55%	28,104,000	<b>19,082,000</b>	21,483,000	23,785,000
**"AX"	23 Nov. 2007	23 Nov. 2008 to 2017	4.45% to 4.85%	56,691,000	<b>40,300,000</b>	44,621,000	48,792,000
**"AY"	16 May 2008	16 May 2009 to 2018	3.30% to 4.85%	53,383,000	<b>41,350,000</b>	45,483,000	49,491,000
**"AZ"	22 Dec. 2008	22 Dec. 2009 to 2023	2.10% to 5.55%	63,750,000	<b>50,794,000</b>	55,211,000	59,521,000
"BA"	11 Jun. 2009	11 June 2010 to 2019	0.95% to 5.00%	70,562,000	<b>59,461,000</b>	65,044,000	70,562,000
"BB"	6 Nov. 2009	6 Nov. 2010 to 2019	1.00% to 4.50%	82,551,000	<b>72,640,000</b>	77,615,000	82,551,000
"BC"	2 June 2010	2 June 2011 to 2020	1.50% to 4.55%	56,080,000	<b>51,771,000</b>	56,080,000	-
"BD"	19 Nov. 2010	19 Nov. 2011 to 2020	1.50% to 3.85%	69,690,000	<b>65,043,000</b>	69,690,000	-
"FCM 10097"	31 Mar. 2011	31 Mar. 2012 to 2031	2.06%	4,000,000	<b>4,000,000</b>	-	-
**"BE"	27 May 2011	27 May 2012 to 2021	1.65% to 4.25%	115,683,000	<b>115,683,000</b>	-	-
"BF"	5 Dec. 2011	5 Dec. 2012 to 2021	1.35% to 3.45%	50,813,000	<b>50,813,000</b>	-	-
					<b>\$809,439,000</b>	<b>\$730,071,000</b>	<b>\$687,110,000</b>

\* These debentures were sold directly to funds administered by the Province of New Brunswick and total \$333,074,000 outstanding at 31 December 2011 (2010 - \$298,943,000). A portion of series "BE" (\$50,264,000) was sold publicly.

**8. Other revenue**

During 2011, commissions related to prior year debt issuance were refunded to the Corporation and have been recorded as other revenue. The refund was issued after discovery that in two cases, the Corporation's bonds were sold on the primary market, directly to funds administered by the Province of New Brunswick.

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**NEW BRUNSWICK MUNICIPAL FINANCE CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 DECEMBER 2011**

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**9. Other expenses**

Other expenses are related to the administration of the Corporation as detailed below.

	<b>2011</b>	2010
Administration fee paid to the Province of New Brunswick	<b>\$ 167,800</b>	\$ 162,219
Bank Charges	<b>2,442</b>	1,903
Other	<b>39</b>	-
	<b>\$ 170,281</b>	\$ 164,122

**10. Subsidized financing**

Qualified financing, through the Corporation, has been made available to municipalities and municipal enterprises by the Federation of Canadian Municipalities ("FCM") at preferential interest rates. The Corporation receives the financing from FCM and provides it to the qualifying municipalities and municipal enterprises at the identical terms.

Since the Corporation initially recognizes all financial instruments at fair value, the prevailing interest rates applicable to the Corporation's regular financing at the time of issue have been used to determine fair value. The difference between the fair value of the debenture issue and the proceeds received is recorded as an in-year revenue, and as a discount to the debenture debt which is amortized to maturity as an expense. The offsetting difference between the fair value of the loans to municipalities and municipal enterprises and the proceeds paid is recorded as an in-year expense, and as a discount to the loans to municipalities and municipal enterprises which is amortized to maturity as revenue.

**11. Related party transactions**

The Corporation is controlled by the Province of New Brunswick. These financial statements include the results of transactions with various Province of New Brunswick departments related to the corporation by virtue of common control. Certain services are provided by departments in the normal course of operations and are recorded in these financial statements. The administrative fees paid by the Corporation to the Province of New Brunswick are based on amounts agreed upon by the parties, and is disclosed in note 9.

As at 31 December 2011, funds administered by the Province of New Brunswick held \$360,441,000 (2010 - \$331,274,000) of the Corporation's outstanding debt. Of that total, \$333,074,000 (2010 - \$298,943,000) was sold directly to the funds.

Cash and cash equivalents at 31 December 2011 includes \$990,200 (2010 - \$939,227) in Province of New Brunswick Treasury Bills sold directly to the Corporation.

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**NEW BRUNSWICK MUNICIPAL FINANCE CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
31 DECEMBER 2011**

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**12. Explanation of transition to IFRS**

The Corporation's financial statements were prepared in accordance with Canadian Generally Accepted Accounting Policies ("CGAAP") up to and including December 31, 2010, and restated using IFRS for these financial statements. The financial reporting requirements of CGAAP differ in a number of areas from those prescribed by IFRS. The Corporation's financial statements for the year ended December 31, 2011 are the first annual financial statements prepared in compliance with IFRS. The Corporation's transition date to IFRS was January 1, 2010 and accordingly, the Corporation prepared its opening IFRS statement of financial position as at that date and has complied with IFRS 1- First-time Adoption of International Financial Reporting Standards ("IFRS 1").

The impact of the adoption of these standards on the financial statements is not significant, affecting only the presentation of the financial information. No transitional reconciliation has been prepared as there were no numerical adjustments of amounts reported previously in the statements of changes in equity, comprehensive income and cash flows prepared in accordance with CGAAP.

On transition, IFRS provides a number of mandatory exceptions to and authorizes certain optional exemptions from full retrospective application of IFRS. In preparing these financial statements in accordance with IFRS 1, the Corporation has not elected to apply any optional elections or exemptions. The Corporation has adopted the mandatory exemption relating to estimates. Estimates previously determined under Canadian GAAP cannot be revised due to the application of IFRS except where necessary to reflect differences in accounting policies.

**13. Capital Management**

The Corporation's capital consists of the debenture debt and retained earnings. The terms of the loans to municipalities and municipal enterprises are in almost all cases identical to the debenture debt in order to provide for the debt's principal and interest payments. The Corporation's retained earnings are invested in highly secure short-term investments. The Corporation is not subject to any externally imposed capital requirements.

There has been no change in this capital structure from the previous year.

