# EFFICIENCY NOVA SCOTIA CORPORATION

## FINANCIAL STATEMENTS

## DECEMBER 31, 2011

**EFFICIENCY NOVA SCOTIA CORPORATION**
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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
**Efficiency Nova Scotia Corporation**:

## Report on the Financial Statements

We have audited the accompanying financial statements of **Efficiency Nova Scotia Corporation** which comprise the statement of financial position as at December 31, 2011 and the statements of operations, changes in fund balances and cash flows for the year then ended 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 Canadian accounting standards for not-for-profit organizations, 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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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.

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Efficiency Nova Scotia Corporation** as at December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

**Report on Other Legal and Regulatory Requirements**

We have audited the Corporation's compliance, as at December 31, 2011, with the cost allocation criteria established by the Efficiency Nova Scotia Corporation Cost Allocation Methodology Report as filed with the Nova Scotia Utility and Review Board. These financial statements and compliance with the cost allocation criteria established by the Report are the responsibility of the Corporation's management. Our responsibility is to express an opinion on this compliance based on our audit.

In our opinion, as at December 31, 2011, the Corporation has complied in all material respects, with the cost allocation criteria established by the Efficiency Nova Scotia Corporation Cost Allocation Methodology Report.

Collins Barrow NS Inc

Dartmouth, Nova Scotia
March 23, 2012

**Chartered Accountants**

# EFFICIENCY NOVA SCOTIA CORPORATION
## STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES
## FOR THE YEAR ENDED DECEMBER 31, 2011

| | Electricity Demand Side Management Fund | Capital Asset Fund | General Fund | Provincial Fund | **2011** | 2010 |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | **$** | $ |
| **REVENUES** | | | | | | |
| Electricity annual assessment (Note 4) | 41,801,933 | - | - | - | **41,801,933** | 7,258,939 |
| Province of Nova Scotia | - | - | - | 13,540,000 | **13,540,000** | - |
| Recreational Facility Association of Nova Scotia | - | - | - | 660,500 | **660,500** | - |
| Interest income | 80,732 | - | - | 85,459 | **166,191** | 12,976 |
| Provincial grant (Note 5) | - | - | 163,699 | - | **163,699** | 11,301 |
| Start-up revenue (Note 6) | - | - | - | - | **-** | 2,038,400 |
| | 41,882,665 | - | 163,699 | 14,285,959 | **56,332,323** | 9,321,616 |
| **DIRECT COSTS** | | | | | | |
| Incentives | 12,859,360 | - | - | 3,619,042 | **16,478,402** | - |
| Implementation contracts and materials | 13,532,613 | - | - | 1,290,074 | **14,822,687** | - |
| Evaluation and verification | 1,259,865 | - | - | 10,400 | **1,270,265** | - |
| Program support | 1,199,137 | - | - | 50,212 | **1,249,349** | - |
| Financing | 195,127 | - | - | - | **195,127** | - |
| Program costs (Note 7) | - | - | - | - | - | 8,091,957 |
| | 29,046,102 | - | - | 4,969,728 | **34,015,830** | 8,091,957 |
| **OTHER PROGRAM AND ADMINISTRATIVE COSTS** | | | | | | |
| Amortization | - | 88,655 | - | - | **88,655** | 9,448 |
| Bad debts | 338,112 | - | - | - | **338,112** | 72,731 |
| Bank charges and interest | 19,009 | - | - | 2,319 | **21,328** | 776 |
| Consulting and other | 1,165,148 | - | 144,792 | 228,856 | **1,538,796** | 810,770 |
| Information technology | 337,661 | - | 13,170 | 70,872 | **421,703** | 221,709 |
| Marketing and communications | 1,817,149 | - | 5,034 | 207,231 | **2,029,414** | 12,803 |
| Meetings and travel | 116,135 | - | - | 18,133 | **134,268** | 19,992 |
| Office and insurance | 242,364 | - | 245 | 48,627 | **291,236** | 82,137 |
| Rent | 172,820 | - | - | 44,671 | **217,491** | 30,776 |
| Salaries and benefits | 2,473,874 | - | - | 574,874 | **3,048,748** | 401,332 |
| Training and development | 165,566 | - | 458 | 33,625 | **199,649** | 14,790 |
| | 6,847,838 | 88,655 | 163,699 | 1,229,208 | **8,329,400** | 1,677,264 |
| **NET SURPLUS (DEFICIT)** | 5,988,725 | ( 88,655) | - | 8,087,023 | **13,987,093** | ( 447,605) |
| FUND BALANCE - beginning of year | ( 490,001) | 42,396 | - | - | **( 447,605)** | - |
| | 5,498,724 | ( 46,259) | - | 8,087,023 | **13,539,488** | ( 447,605) |
| INTERFUND TRANSFERS (Note 8) | ( 435,591) | 548,184 | - | ( 112,593) | **-** | - |
| FUND BALANCES - end of year | 5,063,133 | 501,925 | - | 7,974,430 | **13,539,488** | ( 447,605) |

See accompanying notes to the financial statements

## ASSETS

| | Electricity Demand Side Management Fund | Capital Asset Fund | General Fund | Provincial Fund | **2011** | 2010 |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | **$** | $ |
| **CURRENT** | | | | | | |
| Cash and cash equivalents (Note 9) | 5,526,090 | - | - | 8,835,312 | **14,361,402** | 1,630,784 |
| Accounts receivable (Note 10) | 12,098,757 | - | - | 87,386 | **12,186,143** | 4,126,627 |
| HST receivable (Note 11) | - | - | - | 354,113 | **354,113** | - |
| Prepaids | - | - | - | - | **-** | 7,322 |
| | 17,624,847 | - | - | 9,276,811 | **26,901,658** | 5,764,733 |
| **CAPITAL ASSETS (Note 12)** | - | 501,925 | - | - | **501,925** | 42,396 |
| | 17,624,847 | 501,925 | - | 9,276,811 | **27,403,583** | 5,807,129 |
| **LIABILITIES** | | | | | | |
| **CURRENT** | | | | | | |
| Accounts payable and accrued liabilities | 9,263,675 | - | - | 1,302,381 | **10,566,056** | 5,849,576 |
| HST payable (Note 11) | 3,298,039 | - | - | - | **3,298,039** | 241,459 |
| Deferred revenue | - | - | - | - | **-** | 163,699 |
| | 12,561,714 | - | - | 1,302,381 | **13,864,095** | 6,254,734 |
| **FUND BALANCES** | | | | | | |
| **EXTERNALLY RESTRICTED (Note 13)** | 5,063,133 | 501,925 | - | 7,974,430 | **13,539,488** | ( 447,605) |
| | 17,624,847 | 501,925 | - | 9,276,811 | **27,403,583** | 5,807,129 |

**COMMITMENTS (Note 14) and CONTINGENCIES (Note 15)**

**Approved by the Board**

**Director**

**Director**

See accompanying notes to the financial statements

# EFFICIENCY NOVA SCOTIA CORPORATION
## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED DECEMBER 31, 2011

| | Electricity Demand Side Management Fund | Capital Asset Fund | General Fund | Provincial Fund | **2011** | 2010 |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | **$** | $ |
| **CASH PROVIDED BY (USED FOR):** | | | | | | |
| **OPERATIONS** | | | | | | |
| Net surplus (deficit) | 5,988,725 | (88,655) | - | 8,087,023 | **13,987,093** | (447,605) |
| Item not affecting cash | | | | | | |
| Amortization | - | 88,655 | - | - | **88,655** | 9,448 |
| | 5,988,725 | - | - | 8,087,023 | **14,075,748** | (438,157) |
| Changes in non-cash working capital items | | | | | | |
| Accounts receivable | (7,972,130) | - | - | (87,386) | **(8,059,516)** | (4,126,627) |
| HST receivable | - | - | - | (354,113) | **(354,113)** | - |
| Prepaids | 7,322 | - | - | - | **7,322** | (7,322) |
| Accounts payable and accrued liabilities | 3,414,099 | - | - | 1,302,381 | **4,716,480** | 5,849,576 |
| HST payable | 3,056,580 | - | - | - | **3,056,580** | 241,459 |
| Deferred revenue | - | - | (163,699) | - | **(163,699)** | 163,699 |
| Interfund transfer | (435,591) | 548,184 | - | (112,593) | **-** | - |
| | 4,059,005 | 548,184 | (163,699) | 8,835,312 | **13,278,802** | 1,682,628 |
| **INVESTING** | | | | | | |
| Acquisition of capital assets | - | (548,184) | - | - | **(548,184)** | (51,844) |
| **CHANGE IN CASH AND CASH EQUIVALENTS** | 4,059,005 | - | (163,699) | 8,835,312 | **12,730,618** | 1,630,784 |
| **CASH AND CASH EQUIVALENTS - beginning of year** | 1,467,085 | - | 163,699 | - | **1,630,784** | - |
| **CASH AND CASH EQUIVALENTS - end of year** | 5,526,090 | - | - | 8,835,312 | **14,361,402** | 1,630,784 |
| Cash and cash equivalents consists of: | | | | | | |
| Cash | 5,021,209 | - | - | 8,835,312 | **13,856,521** | 101,837 |
| Term deposit | 504,881 | - | - | - | **504,881** | 1,528,947 |
| | 5,526,090 | - | - | 8,835,312 | **14,361,402** | 1,630,784 |

## 1. NATURE OF OPERATIONS

Efficiency Nova Scotia Corporation ("Corporation") is a not-for-profit organization, incorporated by legislation in the Province of Nova Scotia under the Efficiency Nova Scotia Corporation Act ("Act") on January 22, 2010. The purpose of the Corporation is to manage electricity demand-side management programs in the Province of Nova Scotia with the authority to engage in other energy efficiency and conservation programs.

The Act established the Electricity Demand-Side Management Fund ("EDSM Fund") restricting the expenditures to those expenditures permitted under the Act and those approved by the Nova Scotia Utility and Review Board ("UARB"). Prior to the transition date of October 1, 2010, electricity demand-side management programs had been developed and administered by Nova Scotia Power Incorporated ("NSPI"), a public utility in Nova Scotia.

Effective April 1, 2011, the Corporation reached an agreement with the Province of Nova Scotia to manage the design, development and administration of specific non-electricity energy efficiency and conservation programs. Operations under the Provincial Fund include management of the non-electricity energy efficiency and conservation programs from April 1, 2011 to December 31, 2011.

The comparative figures represent the results of operations of the EDSM, General and Capital Funds from the date of incorporation to December 31, 2010.

The Corporation is not a Crown corporation and operates on a not-for-profit basis; any surplus must be retained for the following year's programs and may not be distributed.

The Corporation is a non-profit organization under the meaning assigned in Section 149 of the Income Tax Act and as such is exempt from income taxes. Accordingly, no provision has been made in the accounts for income taxes.

## 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

These financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund accounting

The Corporation follows the restricted fund method of accounting for contributions.

i) The EDSM Fund is used to account for the operations of the Corporation including reporting the restricted revenues received and expenses approved annually by the UARB. Cash received under the EDSM Fund is only used for the operations of the fund;

ii) The Provincial Fund is used to account for the operations of the Corporation including reporting the restricted revenues received and expenses incurred under contract with the Province of Nova Scotia. Cash received under the Provincial Fund is only used for the operations of the fund;

iii) The Capital Asset Fund is used to account for capital assets, including their purchase, amortization and disposal. Operating costs of capital assets are accounted for in the EDSM and the Provincial Funds;

iv) The General Fund reports the unrestricted revenue and related expenses incurred to assist in the start-up of the Corporation. Cash received under the General Fund is only used for the operation of the fund.

Prepaids

The Corporation's prepaids policy is to capitalize any prepaid expense that is over $10,000.

Revenue recognition

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations using the restricted fund method in which externally restricted revenues are recognized upon receipt in the fund corresponding to the purpose for which they were made.  The electricity annual assessment and Province of Nova Scotia revenues are externally restricted.

Unrestricted revenues are recognized in the General Fund and follow the deferral method of accounting for revenue; revenue is recognized in the year in which related expenses are incurred.

Interest income on short-term interest-bearing deposits is recognized as revenue in the EDSM or Provincial Fund in the year in which the investment income is earned.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

The Corporation discloses bank balances and short-term interest-bearing deposits with a maturity period of twelve months or less from the date of acquisition under cash and cash equivalents.

Capital assets

The Corporation's capital asset policy is to capitalize any items in excess of $10,000. Capital assets are initially recorded at cost. Amortization is provided for using the rates and method over their estimated useful lives as follows:

| | | |
|---|---|---|
| Application software | 2 years | Straight-line |
| Furniture and fixtures | 3 years | Straight-line |
| Leasehold improvements | Term of the lease | Straight-line |

One half year's amortization is taken in the year of the acquisition.

Foreign currency transactions

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at year-end. Foreign currency expenses are translated at rates in effect during the year. Gains and losses from translation are included in the determination of income for the year.

Reporting to UARB

The UARB approves the DSM Plan (“Plan”) for the Corporation, including electricity savings and associated expenditures in a calendar year. The reporting methodology to account to the UARB for actual results against the Plan requires adjustments to the statement of operations. The adjustments required for the purposes of reporting to the UARB on the activities of the EDSM Fund include expensing the purchase of capital assets and exclude amortization of capital assets. These adjustments are already reflected in the EDSM Fund portion of the financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Some of these estimates and assumptions include allowance for doubtful accounts, HST receivable, estimated useful lives of capital assets, accrued liabilities and HST payable. Actual results could differ from those estimates.

Cost allocation methodology

The Corporation follows a cost allocation methodology ("CAM") to reallocate expenses not directly related to a fund, see Note 17.

## 3. FINANCIAL INSTRUMENTS

The Corporation's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and Harmonized Sales Tax ("HST") receivable and payable balances. It is management's opinion that the Corporation is not exposed to significant interest, currency or credit risks arising from financial instruments other than as stated in Note 16.

All of the Corporation's financial assets and liabilities are measured at amortized cost, which approximates fair market value given their capacity for prompt liquidation.

## 4. ELECTRICITY ANNUAL ASSESSMENT

The responsibilities of the electricity demand-side management programs were transitioned from NSPI to the Corporation on October 1, 2010. NSPI determined its amount of revenues collected net of expenses paid for the nine months ended September 30, 2010. This amount in addition to electricity annual assessment for the months of October to December is included in 2010 revenue.

## 5. PROVINCIAL GRANT

In May 2010, the Corporation received an unrestricted grant of $175,000 from the Province of Nova Scotia to defray start-up costs. An amount of $11,301 was recognized as revenue in 2010 as expenses were incurred for consulting and professional fees associated with the development of the non-electricity fuels activities. In 2011, the remaining amount of $163,699 was recognized as revenue, as additional start-up expenses were incurred.

## 6. START-UP REVENUE

In June 2010, the UARB approved an allocation of the Electricity Annual Assessment for 2010 to be transferred from NSPI to the Corporation for estimated start-up costs that would be incurred over the following 18 months.

## 7. PROGRAM COSTS

Program costs were part of the Plan approved by the UARB and included, but were not limited to, the direct costs of the programs including incentives paid to customers, costs of service delivery paid to implementation partners, and salaries and benefits of program managers. Other program costs were support related including consulting costs for the preparation of the Plan, costs of evaluation and verification of the energy savings achieved, and licensing and maintenance of the DSM Database System.

Costs for 2011 have been tracked differently due to a restructuring of the chart of accounts for the implementation of the Cost Allocation Methodology (Note 17). Presentation of costs is expected to be consistent in future years.

## 8. INTERFUND TRANSFERS

The Corporation's management transferred $435,591 (2010 - $51,844) from the EDSM Fund and $112,593 (2010 - nil) from the Provincial Fund to the Capital Asset Fund for the purchase of furniture and fixtrures and leasehold improvements. The amounts transferred from the funds were based on the allocator of Full-Time Equivalents of staff resources assigned to the programs as determined by the CAM.

## 9. CASH AND CASH EQUIVALENTS

The Corporation manages its cash equivalents or short-term interest-bearing deposits according to its cash needs and in accordance with the Corporation's investment policy. The average interest rate on deposits at year end was 1.10% (2010 - 1.36%). Short-term interest-bearing deposits mature in March 2012.

## 10. ACCOUNTS RECEIVABLE

| | **2011** | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Electricity Demand Side Management Fund $ | Provincial Fund $ | **Total $** | Electricity Demand Side Management Fund $ | Provincial Fund $ | Total $ |
| NSPI receivables | 11,100,184 | - | **11,100,184** | 4,126,627 | - | 4,126,627 |
| Other receivables | 998,573 | 87,386 | **1,085,959** | - | - | - |
| | 12,098,757 | 87,386 | **12,186,143** | 4,126,627 | - | 4,126,627 |

Other receivables of $998,573 (2010 - nil) are net of a valuation allowance of $272,000 (2010 - nil).

## 11. HST RECEIVABLE / PAYABLE

The Corporation filed a ruling request with the Canada Revenue Agency ("CRA") in October 2010 on the following two issues:

a) Whether the Corporation is making a taxable supply to NSPI and, as a result, whether the Corporation is required to charge and collect HST on the payments received from NSPI; and

b) Whether the Corporation is entitled to claim full input tax credits for HST paid on expenses incurred in the course of delivering Electricity Demand Side Management programs.

The ruling request is outstanding as at the date of the independent auditors' report.

In anticipation of a favourable ruling, the Corporation has accrued a net liability owing of $3,298,039 (2010 - $241,459) in the EDSM Fund. If the ruling was to deny HST input tax credit eligibility, the Corporation's expenses would increase by approximately $3,698,000 in 2011 (2010 - $892,000).

The Corporation has not yet filed a ruling request with CRA regarding the funding arrangement with the Province of Nova Scotia as at the date of the independent auditors' report. In anticipation of a favourable ruling, the Corporation has accrued a net HST receivable under the Provincial Fund of $354,113 (2010 - nil). If the ruling was to deny HST input tax credit eligibility, the Corporation's expenses would increase by approximately $473,000 in 2011 (2010 - nil).

 

## 12. CAPITAL ASSETS

| | Cost<br>$ | Accumulated Amortization<br>$ | **Net 2011**<br>**$** | Net 2010<br>$ |
|---|---|---|---|---|
| Application software | 9,687 | 7,265 | **2,422** | 7,265 |
| Furniture and fixtures | 266,264 | 58,429 | **207,835** | 35,131 |
| Leasehold improvements | 324,076 | 32,408 | **291,668** | - |
| | 600,027 | 98,102 | **501,925** | 42,396 |

## 13. FUND BALANCES

On August 4, 2009, the UARB approved a DSM Cost Recovery Rider mechanism for NSPI for 2010 and beyond that includes a DSM Balance Adjustment (“DSM BA”). The DSM BA is a true-up component that includes the ability for the Corporation, as Administrator of the EDSM Fund, to recover or refund the difference between the actual and approved costs of the Plan.

The recovery or refund covered under the DSM BA is subject to approval by the UARB. As information required for the true-up is not available until after December 2011, any approved recovery or refund would not happen until January 2013.

## 14. COMMITMENTS

a) The Corporation has entered into a lease agreement for the rental of its office premises, expiring December 31, 2017. Minimum annual lease payments over the next five years are as follows:

| | $ |
|---|---|
| 2012 | 304,362 |
| 2013 | 362,260 |
| 2014 | 367,944 |
| 2015 | 373,628 |
| 2016 | 377,418 |

## 14. COMMITMENTS (Continued)

b) The Corporation has entered into a licensing and services agreement for a Demand Side Management Data System and a letter of intent for a three year IT support services contract. Future minimum payments under both agreements for the next four years are approximately as follows:

| | $ |
|---|---|
| 2012 | 131,386 |
| 2013 | 131,386 |
| 2014 | 131,386 |
| 2015 | 65,693 |

c) The Corporation entered into contract commitments for various energy efficiency programs. Commitments for customer incentives are recognized in the year the energy savings have been claimed. Material commitments for program service delivery in 2012 are in various stages of execution; approximate aggregate of the outstanding contracts is approximately $418,000.

## 15. CONTINGENCIES

The Corporation has an agreement with NSPI to extend financing to certain Commercial and Industrial ("C&I") customers participating in either the Small Business Energy Solutions or C&I Custom programs. Those customers are approved by NSPI for repayment terms up to 48 months. Financing costs related to the principal are paid to NSPI by the Corporation on a monthly basis and are considered part of the applicable program cost. The Corporation is contingently liable to cover defaults on principal amounts outstanding. At December 31, 2011 the balance of total financing extended was $2,405,768 (2010 - $764,671).

## 16. RISK MANAGEMENT

The Corporation is exposed to risks associated with its financial instruments. An analysis of sensitivity to specified risks is provided where these risks may affect results, activities or financial position.

The Corporation's financial instruments and the nature of the risks which they may be subject to are as follows:

| | Risks | | | |
|---|---|---|---|---|
| | | | Market risk | |
| | Credit | Liquidity | Currency | Interest rate |
| Cash and cash equivalents | x | | | x |
| Accounts receivable | x | | | |
| Accounts payable and accrued liabilities | | x | x | |
| HST receivable/payable | | x | | |

a) Credit risk

Credit risk arises from the possibility of one of the parties to a transaction defaulting on its financial obligations.

i) Cash and cash equivalents

Credit risk associated with cash and cash equivalents is minimized by investing these assets in short-term interest-bearing deposits of a Canadian bank with credit ratings established by the Corporation’s banking and investment policy.

ii) Accounts receivable

Credit risk associated with the accounts receivable is minimized, with the majority of receivables outstanding from NSPI, due to the nature of the customer being a regulated public utility, mandated by its regulator to fund the Electricity Annual Assessment on the basis of a forecasted revenue stream from ratepayers.

## 16. RISK MANAGEMENT (Continued)

b) Liquidity risk

Liquidity risk is the risk of being unable to meet cash requirements or fund obligations as they come due. It stems from the possibility of a delay in realizing the fair value of investments. The Corporation manages its liquidity risk by monitoring forecasted and actual cash flow and financial liability maturities, and by holding assets that can be readily converted into cash.

Accounts payable and accrued liabilities include obligations to customers who have earned incentives and are normally paid within 90 days. HST payable is expected to be paid in March 2012 on a voluntary basis.

c) Market risk

The Corporation is exposed to market risks arising from changes in the fair value of financial instruments due to market price fluctuations. Market risks consist of currency risk and interest rate risk.

i) Currency risk

Currency risk is the risk that the fair value of a financial instrument or the related future cash flows will fluctuate due to changes in foreign exchange rates. The Corporation's functional currency is the Canadian dollar. The Corporation entered into foreign currency transactions during the year. The Corporation does not use foreign exchange forward contracts.

ii) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument or the related future cash flows will fluctuate due to changes in market interest rates. The Corporation is exposed to interest rate risk with regard to its cash and cash equivalents. The Corporation has no interest-bearing liabilities.

The Corporation's cash equivalents include amounts on deposit with a Canadian bank that earn interest at the market rate. Fluctuations in market rates of interest on cash do not have a significant impact on the Corporation's results of operations. Short-term interest-bearing deposits are not exposed to significant interest rate risk due to their short-term nature. Therefore, this risk does not have a significant impact.

## 17. COST ALLOCATION METHODOLOGY

The Corporation engages in electricity demand-side management ("EDSM Fund") and other energy efficiency and conservation programs ("Provincial Fund"). The costs in each fund include direct costs of the programs, including but not limited to: customer payments, program support costs, and other program and administrative costs directly attributable to a program. The Corporation also incurs a number of joint direct program costs, common program costs, and salaries and benefits that are common to a group of programs, as well as, administrative and operational overhead, general program administration, and salary and benefit costs that are common to the administration of the organization and each of its programs.

The Corporation allocates the costs noted above based on the criteria indicated in the Efficiency Nova Scotia Corporation Cost Allocation Methodology Report, which is based on allocators including Full-Time Equivalents ("FTE") of staff resources assigned to the programs and Direct Costs ("Direct") of the programs. The CAM is subject to regular review by the UARB and it is expected that it will be applied consistently in future years.

| | Allocator | General Fund Total $ | EDSM Fund Allocation $ | Provincial Fund Allocation $ |
|---|---|---|---|---|
| Bank charges and interest | Direct | 15,566 | 13,247 | 2,319 |
| Consulting and other | Direct | 200,036 | 169,352 | 30,684 |
| Information technology | FTE | 315,839 | 250,958 | 64,881 |
| Information technology | Direct | 39,369 | 33,504 | 5,865 |
| Marketing and communications | Direct | 57,339 | 48,796 | 8,543 |
| Meetings and travel | Direct | 72,908 | 62,046 | 10,862 |
| Office and insurance | FTE | 110,891 | 88,116 | 22,775 |
| Office and insurance | Direct | 167,984 | 142,946 | 25,038 |
| Rent | FTE | 217,491 | 172,820 | 44,671 |
| Salaries and benefits | FTE | 2,929,883 | 2,328,107 | 601,776 |
| Salaries and benefits | Direct | 187,217 | 159,324 | 27,893 |
| Training and development | FTE | 91,993 | 73,099 | 18,894 |
| Training and development | Direct | 97,366 | 82,860 | 14,506 |
| | | 4,503,882 | 3,625,175 | 878,707 |

## 18. COMPARATIVE FIGURES

Certain figures presented for comparative purposes have been reclassified to conform with the financial statement presentation adopted for the current year.