

Financial Statements of

**NOVA SCOTIA PENSION
SERVICES CORPORATION**

Year ended March 31, 2014



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Nova Scotia Pension Services Corporation

We have audited the accompanying financial statements of Nova Scotia Pension Services Corporation which comprise the balance sheet as at March 31, 2014, and the statements of earnings and retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Nova Scotia Pension Services Corporation as at March 31, 2014, its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Chartered Accountants

June 25, 2014

Halifax, Canada

NOVA SCOTIA PENSION SERVICES CORPORATION

Financial Statements

Year ended March 31, 2014

Financial Statements

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NOVA SCOTIA PENSION SERVICES CORPORATION

Balance Sheet

March 31, 2014

2014

Assets

Current assets:

Cash	\$	2,442,066
Accounts receivable (note 3)		370,159
Short-term investment (note 4)		1,244,900
Prepaid expenses		65,147
		<hr/>
		4,122,272

Fixed assets (note 5) 183,141

Intangible assets (note 6) 2,797,494

\$ 7,102,907

Liabilities and Shareholders' Equity

Current liabilities:

Accounts payable and accrued liabilities (note 7)	\$	2,917,306
		<hr/>
		2,917,306

Loans payable (note 8) 2,765,228

Future benefits liability (note 10) 1,420,374

4,185,602

Shareholders' equity:

Common shares (note 12) -

Commitments (note 14)

\$ 7,102,907

See accompanying notes to financial statements.

On behalf of the Board:

Original signed by John B. Carter Co-Chair, Board of Directors

Original signed by Doug L. Moodie Co-Chair, Board of Directors

NOVA SCOTIA PENSION SERVICES CORPORATION

Statement of Earnings and Retained Earnings

Year ended March 31, 2014

	2014
Revenue	\$ 7,036,347
Interest income	10,648
	<u>7,046,995</u>
Expenses:	
Salaries and benefits	5,044,212
Professional services	1,032,128
Office administration	573,011
Property rental	387,040
Amortization	10,604
	<u>7,046,995</u>
Net earnings, being retained earnings, end of year	<u>\$ -</u>

See accompanying notes to financial statements.

NOVA SCOTIA PENSION SERVICES CORPORATION

Statement of Cash Flows

Year ended March 31, 2014

	2014
Cash flows from operating activities:	
Net earnings	\$ -
Item not involving cash:	
Amortization	10,604
Transfer of cash from the Province of Nova Scotia (note 10)	1,263,900
Change in non-cash operating working capital:	
Increase in accounts receivable	(328,595)
Increase in prepaid expenses	(65,147)
Increase in accounts payable and accrued liabilities	2,917,306
Increase in future benefits liability	114,910
Net cash provided by operating activities	3,912,978
Cash flows from financing activities:	
Proceeds from loans payable	2,468,169
Net cash provided by financing activities	2,468,169
Cash flows from investing activities:	
Purchase of fixed assets	(184,620)
Purchase of intangible assets	(2,509,561)
Purchase of short-term investment	(1,244,900)
Net cash used in investing activities	(3,939,081)
Increase in cash	2,442,066
Cash, beginning of year	-
Cash, end of year	\$ 2,442,066

See accompanying notes to financial statements.

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements

Year ended March 31, 2014

Nova Scotia Pension Services Corporation ("the Corporation") is a private enterprise, incorporated on April 1, 2013 under the laws of Nova Scotia under Bill No. 17 (Financial Measures Act (2012) dated April 12, 2012).

Under the Nova Scotia Pension Services Corporation Act (the "Act"), the Corporation was devolved from the Nova Scotia Pension Agency, a government agency of the Province of Nova Scotia. The Corporation has issued an equal number of shares to Teachers' Pension Plan Trustee Inc. and Public Service Superannuation Plan Trustee Inc. All assets, liabilities and obligations of the Nova Scotia Pension Agency as at March 31, 2013 were transferred to the Corporation on April 1, 2013.

The purpose of the Corporation is to provide pension administration and pension investment services for the Teachers' Pension Plan and Public Service Superannuation Plan, Ancillary Plans of the Province of Nova Scotia (Sydney Steel Corporation Superannuation Fund, Members' Retiring Allowances Plan and Members' Supplementary Retiring Allowances Plan established under the Members' Retiring Allowances Act) and any other pension plan or arrangement that retains the services of the Corporation and is approved by the Board of Directors ("the clients").

The Corporation operates on a cost recovery basis as provided for in the Act. The Corporation is a not-for-profit organization and, as such, is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

1. Significant accounting policies:

(a) Basis of presentation:

The Corporation's financial statements are prepared in accordance with Canadian accounting standards for private enterprises in Part II of the CPA Canada Handbook.

(b) Investments:

Investments in equity instruments that are quoted in an active market are accounted for at fair value, with changes in fair value recorded in net income. Transaction costs are accounted for in the original cost of the investments, except for equity investments that are quoted in an active market, the transaction costs are expensed as incurred.

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

1. Significant accounting policies (continued):

(c) Fixed assets:

Fixed assets are stated at cost, less accumulated amortization. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Computer hardware	Straight-line	4-5 years
Furniture and fixtures	Straight-line	5 years

The carrying amount of an item of fixed assets is tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the asset's carrying amount is not recoverable and exceeds its fair value.

(d) Intangible assets:

Intangible assets represent deferred development costs related to pension system, electronic filing system and investment trading system projects. Development activities are recognized as an asset provided they meet the capitalization criteria, which include the Corporation's ability to demonstrate: technical feasibility of completing the intangible asset so that it will be available for use or sale; the Corporation's intention to complete the asset for use; the Corporation's ability to use the asset; the adequacy of the Corporation's resources to complete the development; the Corporation's ability to measure reliably the expenditures during the development; and the Corporation's ability to demonstrate that the asset will generate future economic benefits. Development expenditures that do not meet the capitalization criteria and expenditures for research activities are expensed as incurred. Intangible assets are measured at cost less accumulated amortization and will be amortized on a straight-line basis over their useful lives of 5 years.

(e) Employee future benefits:

The Corporation has an obligation to provide future benefits to its employees in respect of post-retirement health benefits, public service awards and a supplemental employee retirement plan. The benefits are based on years of service and final average salary.

Post-retirement health benefits are available to all retirees whereas the public service award is only available to bargaining unit employees. The supplemental employee retirement plan benefits are based on years of service and salary level – being available only to employees above a defined salary. The Corporation accrues its obligations under the benefit plans as the employees render the services necessary to earn the benefits on an annual basis.

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

1. Significant accounting policies (continued):

The obligation at the end of the year is determined based on the most recent actuarial valuation report prepared for accounting purposes. The measurement date of the obligation coincides with the Corporation's fiscal year-end. The date of the most recent actuarial valuation of the obligation prepared for accounting purposes is April 1, 2013. The report was received on June 25, 2013 and has been extrapolated to March 31, 2014.

(f) Revenue recognition:

Revenue is recognized when services are provided and the customer assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

(g) Expense allocation:

The net of operating costs, amortization and income are charged to clients based on the clients' usage rate of the services provided by the Corporation. Wherever practical, these costs are matched to the client based on their use of specific services.

(h) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Corporation has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs. These costs are amortized using the straight-line method.

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

1. Significant accounting policies (continued):

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Corporation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Corporation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial impairment charge.

(i) Related party transactions:

Monetary related party transactions and non-monetary related party transactions that have commercial substance are measured at the exchange amount when they are in the normal course of business, except when the transaction is an exchange of a product or property held for sale in the normal course of operations. Where the transaction is not in the normal course of operations, it is measured at the exchange amount when there is a substantive change in the ownership of the item transferred and there is independent evidence of the exchange amount.

All other related party transactions are measured at the carrying amount.

(j) Use of estimates:

The preparation of the Corporation's financial statements requires 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 year. Significant items subject to such estimates and assumptions include the assumptions used in measuring the future benefits liability. Actual results could differ from those estimates made.

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

2. Transfer of assets and liabilities:

On April 1, 2013, Nova Scotia Pension Agency transferred to the Corporation, all assets and liabilities as follows:

	Teachers' Pension Plan	Public Service Superannuation Plan	Other	Total
Assets:				
Accounts receivable	\$ 6,884,668	\$ 6,559,689	\$ 1,014	\$13,445,371
Intangible assets	148,529	148,530	-	297,059
Liabilities:				
Accounts payable and accrued liabilities	6,722,685	6,722,686	-	13,445,371
Loans payable	148,529	148,530	-	297,059

In addition to the foregoing, the Province of Nova Scotia transferred \$1,263,900 in cash to offset the future benefits liability outstanding as at March 31, 2013 (note 10).

3. Accounts receivable:

Accounts receivable include amounts owed to the Corporation from its clients for services provided, expenses incurred in order to service those clients or paid on behalf of those clients.

The following amounts were due to the Corporation from its clients as at March 31, 2014:

	2014
Teachers Pension Plan	\$ 165,229
Public Service Superannuation Fund	159,119
Province of Nova Scotia:	
Sydney Steel Corporation Superannuation Fund	18,700
Members' Retirement Allowances Act Plans	12,897
Department of Finance	3,535
Accrued interest	10,649
Other	30
	\$ 370,159

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

4. Short-term investment:

The short-term investment consists of a guaranteed investment certificate with a maturity date of August 20, 2014.

5. Fixed assets:

2014	Cost	Accumulated amortization	Net book value
Computer hardware	\$ 174,645	\$ (705)	\$ 173,940
Furniture and fixtures	9,975	(774)	9,201
	\$ 184,620	\$ (1,479)	\$ 183,141

6. Intangible assets:

	Cost	Accumulated amortization	2014 Net book value
Intangible assets subject to amortization:			
Systems project costs	\$ 2,806,619	\$ (9,125)	\$ 2,797,494
	\$ 2,806,619	\$ (9,125)	\$ 2,797,494

The costs of \$297,059 in intangible assets (note 2), transferred from the Province of Nova Scotia on April 1, 2013, were related to the construction and development of a new pension system which were capitalized and will be amortized upon completion of the project.

The amortization of project costs commences upon completion of the project. Three projects have been capitalized as at March 31, 2014. They are the pension system project which involves the creation of a new computerized pension system, the electronic filing project to create a robust file transfer and control system and the investment trading system project to move away from the Province of Nova Scotia's trading system and onto a network controlled by the Corporation. As the assets are amortized, an amount equal to the amortization will be charged back to Teachers' Pension Plan, Public Service Superannuation Plan and other clients using this technology, offsetting loans from the related entities.

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

6. Intangible assets (continued):

The pension system and electronic filing projects are considered to be intangible assets which will not be subject to amortization until the projects are completed. The investment trading system project was completed during the year. Amortization expense will commence when projects have been completed. Amortization will be charged over 5 years using the straight-line method. The basis to account for internally generated intangible asset costs is the aggregation of all intangible costs that can be directly identified as being part of the production of the asset. These costs include the salary costs of specific employees based on their time spent while working on project-related tasks.

7. Accounts payable and accrued liabilities:

	2014
Accounts payable	\$ 2,262,926
Harmonized sales tax payable	51,066
Due to Teachers' Pension Plan	297,526
Due to Public Service Superannuation Plan	305,788
	<hr/>
	\$ 2,917,306

8. Loans payable:

As capital costs are incurred, the Corporation calls for a loan from the Teachers' Pension Plan and Public Service Superannuation Plan. The amount required to cover capitalized costs is funded equally by each plan unless agreed otherwise by the plan making the loan to the Corporation. Loans are long-term in nature and do not bear interest.

As at March 31, 2014, the loans payable are as follows:

	2014
Teachers' Pension Plan	\$ 1,382,614
Public Service Superannuation Plan	1,382,614
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	\$ 2,765,228

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

9. Related party transactions:

- a) Teachers' Pension Plan Trustee Inc. as trustee of Teachers' Pension Plan:

The Corporation entered into an agreement with the Teachers' Pension Plan Trustee Inc. on April 1, 2013 to provide pension and investment services to the Teachers' Pension Plan. The amount charged to Teachers' Pension Plan for the year was \$3,473,583 (note 13). As at March 31, 2014, the Corporation has a receivable of \$165,229 from Teachers' Pension Plan (note 3).

During the year, Teachers' Pension Plan advanced cash to the Corporation to fund its proportionate share of upcoming expenses as required. As at March 31, 2014 the cash advance due to Teachers' Pension Plan was \$297,526 (note 7).

During the year, the Teachers' Pension Plan loaned the Corporation funds to fund capital assets for the betterment of servicing the clients of the Corporation. As at March 31, 2014, the loan payable due to Teachers' Pension Plan was \$1,382,614 (note 8).

- b) Public Service Superannuation Plan Trustee Inc. as trustee of Public Service Superannuation Plan:

The Corporation entered into an agreement with Public Service Superannuation Plan Trustee Inc. on April 1, 2013 to provide pension and investment services to Public Service Superannuation Plan. The amount charged to Public Service Superannuation Plan for the year was \$3,414,029 (note 13). As at March 31, 2014, the Corporation has a receivable of \$159,119 from Public Service Superannuation Plan (note 3).

During the year, Public Service Superannuation Plan advanced cash to the Corporation to fund its proportionate share of upcoming expenses as required. As at March 31, 2014 the cash advance due to Public Service Superannuation Plan was \$305,788 (note 7).

During the year, Public Service Superannuation Plan loaned the Corporation funds to fund capital assets for the betterment of servicing the clients of the Corporation. As at March 31, 2014, the loan payable due to Public Service Superannuation Plan was \$1,382,614 (note 8).

Employees of the Corporation are members of Public Service Superannuation Plan. During the year, the Corporation made \$348,041 in contributions to the plan (note 11).

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

9. Related party transactions (continued):

c) Premises:

The Corporation bases its operations in Purdy's Wharf, a building jointly owned by both TPP Investments I Inc. a wholly owned subsidiary of Teachers' Pension Plan and PSS Investments I Inc. a wholly owned subsidiary of Public Service Superannuation Plan. The Corporation serves as directors of both TPP Investments I Inc. and PSS Investments I Inc. The rent paid to the landlord for the year was \$387,040.

d) Province of Nova Scotia:

During the year, the Province of Nova Scotia provided services to the Corporation and its clients. The significant related party purchases from the Province of Nova Scotia were as follows:

	2014
Payroll services	\$ 330,100
Telecommunications	83,223
Stationary and postage	5,109
Other	1,674
	<hr/>
	\$ 420,106

The Corporation entered into an agreement with the Province of Nova Scotia on April 1, 2013 to provide pension services to Sydney Steel Corporation Superannuation Fund and the Members Retiring Allowances Act Plans. For the year, the Corporation charged the Province of Nova Scotia for services related to Sydney Steel Corporation Superannuation Fund (\$94,543) and Members Retiring Allowances Act Plans (\$49,742) (note 13).

During the year, the Province of Nova Scotia advanced cash to the Corporation to fund its proportionate share of upcoming expenses relating to Sydney Steel Corporation Superannuation Fund and Members Retiring Allowances Act Plans as required. As at March 31, 2014, the Corporation has a receivable from the Province of Nova Scotia for services related to Sydney Steel Corporation Superannuation Fund (\$18,700) and Members Retiring Allowances Act Plans (\$12,897) (note 3).

Pension services were provided to the Department of Finance during the year. The amount charged to the Province of Nova Scotia was \$4,450 (note 13). As at March 31, 2014, the Corporation has a receivable of \$3,535 from the Department of Finance (note 3).

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

9. Related party transactions (continued):

In all cases the measurement basis of related party transactions has been the value of cash received or paid between parties and the value of invoices raised for services between parties.

10. Future benefits liability:

On April 1, 2013, the Province of Nova Scotia transferred the future benefit obligation related to the staff of the Nova Scotia Pension Agency as at March 31, 2013 to the Corporation. An actuarial valuation was provided to the Province of Nova Scotia by Mercer (Canada) Limited on June 12, 2013 with respect to the estimated obligations as of March 31, 2013 of benefits provided under the post-retirement health benefits, the public service awards and supplementary employee retirement plan to Nova Scotia Pension Agency employees.

The opinion provided by Mercer to the Province of Nova Scotia was based on the Province's cost of borrowing under the generally accepted accounting principles for governments as recommended by the Public Sector Accounting Board ("PSAB"). The Corporation had an actuarial valuation prepared by Eckler Limited under CICA on June 25, 2013.

The following table shows the difference in opinions and accounting standards.

	CICA	PSAB	Variance
Post-retirement Health Benefits	\$ 562,698	\$ 526,900	\$ 35,798
Public Service Award	478,619	485,000	(6,381)
Supplemental Employee Retirement Plan	264,147	252,000	12,147
	\$ 1,305,464	\$ 1,263,900	\$ 41,564

On August 8, 2013, the Province of Nova Scotia paid \$1,263,900 to the Corporation to cover the obligations as at March 31, 2013. Under CICA accounting standards, there was a shortfall of \$41,564 to the net obligation of the Corporation.

The future benefit obligation of the Corporation at March 31, 2014 was calculated under Section 3463 of Part III of the CPA Canada Handbook – Accounting by Eckler Limited based on information supplied by the Corporation. In determining liabilities under CPA 3463, the method required is the projected unit credit method prorated on services (i.e. benefits are projected with salary increases to retirement and then prorated based on service).

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

10. Future benefits liability (continued):

The significant assumptions used are as follows:

	March 31, 2014
Discount rate	4.0% per annum for the 2013/14 post retirement benefit cost
Compensation increase	2.25% per annum for employees over 50 years of age, rising to 4.75% per annum for employees under 30 years of age
Retirement age	35% at Rule of 80 (minimum age 55), remainder at age 60 with 2 years of service, age 65 or 35 years of service
Mortality	UP-94 with future mortality improvements in accordance with Scale AA for the 2013/14 post retirement benefit cost
Income Tax Act maximum pension	\$2,697 per year of service in 2013, increasing 2.25% per annum after 2013

The future benefits obligation as at March 31, 2014 is calculated as follows:

	March 31, 2014
Post-retirement Health Benefits	\$ 642,496
Public Service Award	454,883
Supplemental Employee Retirement Plan	322,995
	<hr/>
	\$ 1,420,374

11. Employee pension plan:

Permanent employees of the Corporation participate in the Public Service Superannuation Plan (the "Plan"), a contributory defined benefit pension plan, which provides pension benefits based on length of service and earnings.

Contributions to the Plan are required by both the employees and the employer. The Corporation's contributions range from 8.4% to 10.9% of an employee's salary. Total employer contributions for 2014 were \$348,041 and are recognized in salaries and benefits expense in the financial statements.

The Corporation is not responsible for any under-funded liability, nor does the Corporation have access to any surplus that may arise in this Plan.

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2014

12. Issued share capital:

The Share Capital of the Corporation is 100,000 common shares of one class without par value. The shares do not carry a dividend; they are not redeemable and are not convertible. During the year ended March 31, 2014, 100 shares were issued, 50 to the Teachers' Pension Plan Trustee Inc. and 50 to Public Service Superannuation Plan Trustee Inc. at nil value and no shares were resold. At the end of the year, there were no existing commitments to issue or re-sell shares.

13. Revenue:

Revenue by client is as follows:

	2014
Teachers' Pension Plan	\$ 3,473,583
Public Service Superannuation Plan	3,414,029
Province of Nova Scotia:	
Sydney Steel Corporation Superannuation Fund	94,543
Members' Retiring Allowances Act Plans	49,742
Department of Finance	4,450
	<hr/> \$ 7,036,347 <hr/>

14. Commitments:

As at March 31, 2014, the Corporation was contractually obligated under various operating and occupancy leases. Future minimum annual lease payments over the next five years are as follows.

2015	\$ 1,247,282
2016	1,240,154
2017	1,119,842
2018	882,208
2019	903,224
	<hr/> \$ 5,392,710 <hr/>