

Financial Statements of

**NOVA SCOTIA PENSION
SERVICES CORPORATION**

Year ended March 31, 2016



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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, 2016, 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, 2016, and 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 22, 2016
Halifax, Canada

NOVA SCOTIA PENSION SERVICES CORPORATION

Financial Statements

Year ended March 31, 2016

Financial Statements

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NOVA SCOTIA PENSION SERVICES CORPORATION

Balance Sheet

March 31, 2016, with information for 2015

	2016	2015
Assets		
Current assets:		
Cash	\$ 1,801,126	\$ 327,239
Accounts receivable (note 2)	614,569	1,679,255
Short-term investment (note 3)	1,700,000	1,515,000
Prepaid expenses	143,772	139,576
	<u>4,259,467</u>	<u>3,661,070</u>
Fixed assets (note 4)	133,661	103,458
Intangible assets (note 4)	5,329,276	5,567,941
	<u>\$ 9,722,404</u>	<u>\$ 9,332,469</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$ 2,553,838	\$ 2,103,106
	<u>2,553,838</u>	<u>2,103,106</u>
Loans payable (note 6)	5,462,938	5,639,399
Future benefits liability (note 8)	1,705,628	1,589,964
	<u>7,168,566</u>	<u>7,229,363</u>
Shareholders' equity:		
Common shares (note 10)	-	-
	<u>\$ 9,722,404</u>	<u>\$ 9,332,469</u>

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 Moodie' Co-Chair, Board of Directors

NOVA SCOTIA PENSION SERVICES CORPORATION

Statement of Earnings and Retained Earnings

Year ended March 31, 2016, with information for 2015

	2016	2015
Revenue (note 11)	\$ 10,073,384	\$ 7,833,917
Interest income	19,820	19,410
	<u>10,093,204</u>	<u>7,853,327</u>
Expenses:		
Salaries and benefits	5,488,177	5,352,277
Professional services	1,292,540	1,200,295
Office and administration	1,699,163	880,762
Property rental	400,997	396,432
Amortization	1,212,327	23,561
	<u>10,093,204</u>	<u>7,853,327</u>
Net earnings, being retained earnings, end of year	\$ -	\$ -

See accompanying notes to financial statements.

NOVA SCOTIA PENSION SERVICES CORPORATION

Statement of Cash Flows

Year ended March 31, 2016, with information for 2015

	2016	2015
Cash flows from operating activities:		
Net earnings	\$ -	\$ -
Items not involving cash:		
Amortization	1,212,327	23,561
Change in non-cash operating working capital:		
(Increase)/decrease in accounts receivable	1,064,686	(1,309,096)
Increase in prepaid expenses	(4,196)	(74,429)
Increase/(decrease) in accounts payable and accrued liabilities	450,732	(814,200)
Increase in future benefits liability	115,664	169,590
Net cash provided by (used in) operating activities	2,839,213	(2,004,573)
Cash flows from financing activities:		
Increase/(decrease) in long-term loans payable	(176,461)	2,874,171
Net cash provided by financing activities	(176,461)	2,874,171
Cash flows from investing activities:		
Purchase of fixed assets	(62,825)	(81,497)
Purchase of intangible assets	(941,040)	(2,632,828)
Purchase of short-term investment	(185,000)	(270,100)
Net cash used in investing activities	(1,188,865)	(2,984,425)
Increase (decrease) in cash	1,473,887	(2,114,827)
Cash, beginning of year	327,239	2,442,066
Cash, end of year	\$ 1,801,126	\$ 327,239

See accompanying notes to financial statements.

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements

Year ended March 31, 2016

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 Part II – Accounting Standards for Private Enterprises 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, 2016

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	2-4 years
Furniture	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 corporate, pension and investment systems. 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 are amortized on a straight-line basis over their useful lives of 5 years.

The amortization of project cost related to corporate, pension and investment systems commences upon completion of the systems. As the assets are amortized, an amount equal to the amortization will be charged back to the clients using those systems, offsetting loans from related entities.

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.

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

1. Significant accounting policies (continued):

(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.

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 March 31, 2016. The report was received in April 2016 (note 8).

(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, 2016

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, 2016

2. Accounts receivable:

Accounts receivable include amounts owed to the Corporation from its clients for services provided and accrued interest on a short-term investment.

The following amounts were due to the Corporation as at March 31, 2016:

	2016	2015
Public Service Superannuation Plan	\$ 377,294	\$ 828,426
Teachers' Pension Plan	200,719	834,437
Members' Retirement Allowances Act Plans	15,297	1,447
Accrued interest on short-term investment	11,220	12,610
Province of Nova Scotia	575	-
Sydney Steel Corporation Superannuation Fund	-	2,110
Other	9,464	225
	\$ 614,569	\$ 1,679,255

3. Short-term investment:

The short-term investment consists of a guaranteed investment certificate with a maturity date of August 25, 2016 (2015 – August 20, 2015).

4. Fixed & intangible assets:

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
Fixed assets				
Computer hardware	127,482	(31,608)	95,874	90,597
Furniture	47,934	(10,147)	37,787	12,861
	175,416	(41,755)	133,661	103,458
Intangible assets				
Systems	6,534,012	(1,204,736)	5,329,276	5,567,941
	6,534,012	(1,204,736)	5,329,276	5,567,941
Total	6,709,428	(1,246,491)	5,462,937	5,671,399

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

5. Accounts payable and accrued liabilities:

	2016	2015
Accounts payable and accrued liabilities	\$ 2,439,766	\$ 1,947,846
Harmonized sales tax payable	83,524	119,103
Due to Sydney Steel Corporation Superannuation Fund	30,548	17,497
Due to Members' Retiring Allowances Act Plans	-	18,660
	<u>\$ 2,553,838</u>	<u>\$ 2,103,106</u>

6. 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, 2016, the loans payable are as follows:

	2016	2015
Teachers' Pension Plan	\$ 2,731,469	\$ 2,819,700
Public Service Superannuation Plan	2,731,469	2,819,699
	<u>\$ 5,462,938</u>	<u>\$ 5,639,399</u>

7. 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 ended March 31, 2016 was \$4,749,548 (2015 - \$3,676,678 (note 11)). As at March 31, 2016, the Corporation has a receivable of \$200,719 (2015 - \$834,437) from Teachers' Pension Plan for services provided (note 2).

Teachers' Pension Plan advances cash to the Corporation on a short-term basis to pay expenses. As at March 31, 2016, there were no cash advances due to Teachers' Pension Plan (2015 - \$nil) (note 5). During the year, 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, 2016, the loan payable due to Teachers' Pension Plan was \$2,731,469 (2015 - \$2,819,700) (note 6).

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

7. Related party transactions (continued):

- 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 ended March 31, 2016 was \$5,118,678 (2015 - \$3,959,564) (note 11). As at March 31, 2016, the Corporation has a receivable of \$377,294 (2015 - \$828,426) from Public Service Superannuation Plan for services provided (note 2).

Public Service Superannuation Plan advances cash to the Corporation on a short-term basis to pay expenses. As at March 31, 2016, there were no cash advances due to Public Service Superannuation Plan (2015 - \$nil) (note 5). 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, 2016, the loan payable due to Public Service Superannuation Plan was \$2,731,469 (2015 - \$2,819,699) (note 6).

Employees of the Corporation are members of Public Service Superannuation Plan. During the year, the Corporation made \$390,620 (2015 - \$315,511) in contributions to the plan (note 9).

- c) Premises:

The Corporation bases its operations in Purdy's Wharf, a building partially owned by both TPP Investments I Inc., a related subsidiary of Teachers' Pension Plan, and PSS Investments I Inc., a related subsidiary of Public Service Superannuation Plan. Employees of the Corporation serve as directors of both TPP Investments I Inc. and PSS Investments I Inc. The rent paid to the landlord for the year was \$400,997 (2015 - \$396,432).

- 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:

	2016	2015
Payroll services	\$ 359,100	\$ 330,100
IT services	220,950	658,791
Stationery, printing & postage	3,707	22,423
Telecommunications	-	9,999
Other	4,134	5,160
	<u>\$ 587,891</u>	<u>\$ 1,026,473</u>

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

7. Related party transactions (continued):

The amount due to the Province of Nova Scotia as at March 31, 2016 was \$403,525 (2015 – \$574,632).

Pension services were provided to the Province of Nova Scotia during the year. The amount charged to the Province of Nova Scotia was \$1,720 (2015 - \$1,500) (note 11).

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.

8. Future benefits liability:

Upon retirement, employees of the Corporation will receive post-retirement health benefits, and where eligible, the Public Service Award and benefits under a Supplemental Employee Retirement Plan.

The future benefits liability of the Corporation was calculated as at March 31, 2016 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, 2016

8. Future benefits liability (continued):

The significant assumptions used are as follows:

	March 31, 2016	March 31, 2015
Discount rate	3.90% per annum	4.40% per annum
Compensation increase	1.5% per annum for 2 years, 2.5% per annum thereafter plus merit, rising to 2.0% per annum for employees under 30 years of age	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	<ul style="list-style-type: none"> • 10% at age 59 • 20% at age 60 • 10% at age 61-64 • 50% at age 65-69 • 100% at age 70 <p>However, 20% each year on or after earliest unreduced retirement date, if greater; plus an additional 40% at 35 years of service</p>	Retirement age 35% at Rule of 80 (minimum age 54)/ Rule 85 (minimum age 55), remainder at age 60 with 2 years of service, age 65 or 35 years of service
Mortality	120% of Canadian Public Sector Mortality Table with future mortality improvements in accordance with Scale B	Canadian Public Sector Mortality Table with future mortality improvements in accordance with Scale B
Income tax Act maximum pension	\$2,890 per year of service in 2016, increasing at 2.50% per annum after 2016	\$2,697 per year of service in 2013, increasing at 2.25% per annum after 2013

The future benefits liability as at March 31, 2016 is calculated as follows:

	2016	2015
Post-retirement health benefits	\$ 783,882	\$ 719,771
Public service award	464,559	475,577
Supplemental Employee Retirement Plan	457,187	394,616
	\$ 1,705,628	\$ 1,589,964

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

9. 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 2016 were \$390,620 (2015 - \$315,511) 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.

10. Issued common shares:

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. On April 1, 2013, 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.

11. Revenue:

Revenue by client is as follows:

	2016	2015
Public Service Superannuation Plan	\$ 5,118,678	\$ 3,959,564
Teachers' Pension Plan	4,749,548	3,676,678
Sydney Steel Corporation Superannuation Fund	108,684	115,593
Members' Retiring Allowances Act Plans	94,754	80,582
Province of Nova Scotia	1,720	1,500
	<hr/>	<hr/>
	\$ 10,073,384	\$ 7,833,917

NOVA SCOTIA PENSION SERVICES CORPORATION

Notes to Financial Statements (continued)

Year ended March 31, 2016

12. Commitments:

As at March 31, 2016, the Corporation was contractually obligated under various operating and occupancy leases. Future minimum annual lease payments over the next five years are as follows.

2017	\$ 1,319,777
2018	1,278,302
2019	1,305,418
2020	410,238
2021	416,510
	<hr/>
	\$ 4,730,245

13. Comparative information:

Certain comparative information for March 31, 2015 has been reclassified to conform to the financial statement presentation adopted for March 31, 2016.