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# Public Trustee Trust Funds

Financial Statements

For the Year Ended March 31, 2017

## Management's Responsibility for the Financial Statements

Management is responsible for the integrity of the financial information reported by the Public Trustee of Nova Scotia. Fulfilling the responsibility requires the preparation and presentation of financial statements and other financial information in accordance with International Financial Reporting Standards ("IFRS"). These standards are consistently applied.

The Management of Public Trustee confirm that, to the best of our belief:

- the preparation of the financial statements is in accordance with IFRS;
- significant assumptions used by us in making accounting estimates, including those measured at fair value and at nominal value, are reasonable; and
- significant accounting policies under IFRS have been determined by us to represent the activities of the Office;

The Office of the Auditor General of Nova Scotia has audited the financial statements of the Public Trustee Trust Funds prepared in accordance with IFRS.

The Auditor's responsibility is to express an opinion on the fairness of these financial statements. The Independent Auditor's Report outlines the scope of the audit and the auditor's opinion.



Shannon Ingraham-Christie  
Public Trustee



Beverly Whittaker-Taggart  
Director, Finance, Administration & Systems



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# Auditor General of Nova Scotia

## INDEPENDENT AUDITOR'S REPORT

To the Public Trustee

I have audited the accompanying financial statements of the Public Trustee Trust Funds, which comprise the Statement of Net Assets Held in Trust as at March 31, 2017, and the Statement of Net and Comprehensive Loss, Statement of Continuity of Net Assets Held in Trust and Statement of 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 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 audit. I conducted my audit 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 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 Public Trustee Trust Funds as at March 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Michael A. Pickup, CPA, CA  
Auditor General of Canada

July 6, 2017  
Halifax, Canada



Public Trustee Trust Funds  
Statement of Net Assets Held in Trust  
March 31, 2017

	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
<b>Estates and Trusts</b>		
Cash	\$ 3,833,826	\$ 5,007,831
Securities, real estate and other assets (Note 5)	49,053,888	45,596,581
Common Fund Securities (Note 6)	2,994,349	2,987,536
Special Reserve Fund (Note 7)	3,239,119	3,120,446
Accounts receivable and accrued interest	<u>842,052</u>	<u>587,919</u>
	<u>59,963,234</u>	<u>57,300,313</u>
<b>Liabilities</b>		
<b>Estates and Trusts</b>		
Due to Special Reserve Fund	117,742	124,514
Accounts payable	<u>538,653</u>	<u>345,358</u>
	<u>656,395</u>	<u>469,872</u>
<b>Net Assets Held in Trust</b>	<u>\$ 59,306,839</u>	<u>\$ 56,830,441</u>

See accompanying notes to the financial statements

Public Trustee Trust Funds  
Statement of Net and Comprehensive Loss  
For the Year Ended March 31, 2017

	2017	2016
<b>Revenues</b>		
Pension	\$ 8,444,366	\$ 8,030,619
Investment income	708,183	800,481
Other	1,038,001	790,601
Annuities	<u>651,164</u>	<u>660,632</u>
	10,841,714	10,282,333
Common Fund interest and investment income (Note 6)	<u>122,419</u>	<u>124,106</u>
	<u>10,964,133</u>	<u>10,406,439</u>
<b>Expenses</b>		
Accommodation	7,550,436	7,174,578
Fees charged by the Public Trustee paid to the Province (Note 9)	1,145,944	1,182,404
Taxes	696,927	885,142
Funeral	525,733	513,260
Medical	397,867	377,845
Allowances	375,949	371,788
Real estate	187,942	222,747
Legal costs	236,341	195,228
Property care	160,139	192,744
Utilities	142,370	140,292
Common Fund interest income to be transferred to the Special Reserve Fund (Note 7)	117,742	124,514
Insurance	97,008	101,669
Miscellaneous	<u>77,243</u>	<u>76,266</u>
	<u>11,711,641</u>	<u>11,558,477</u>
<b>Loss from operations</b>	(747,508)	(1,152,038)
Realized loss on sale of assets held in trust	(1,152,830)	(543,054)
Unrealized gain (loss) on assets held in trust at year end	<u>601,598</u>	<u>(134,121)</u>
<b>Net and comprehensive loss</b>	<u>\$ (1,298,740)</u>	<u>\$ (1,829,213)</u>

See accompanying notes to the financial statements

Public Trustee Trust Funds  
Statement of Continuity of Net Assets Held in Trust  
For the Year Ended March 31, 2017

	2017	2016
<b>Balance, beginning of year</b>	\$ 56,830,441	\$ 55,525,891
<b>Add:</b> Estates and trusts of new clients and additional assets of existing clients	14,490,824	13,972,525
Net and comprehensive loss	(1,298,740)	(1,829,213)
Special Reserve Fund Income (Note 7)	<u>213,691</u>	<u>219,401</u>
	<u>13,405,775</u>	<u>12,362,713</u>
<b>Less:</b> Distribution of estates and trusts	10,767,076	10,887,629
Undistributable estates and trusts (per Section 28)	67,283	69,641
Special Reserve Fund Distribution (Note 7)	<u>95,018</u>	<u>100,893</u>
	<u>10,929,377</u>	<u>11,058,163</u>
<b>Balance, end of year</b>	<u>\$ 59,306,839</u>	<u>\$ 56,830,441</u>

See accompanying notes to the financial statements

Public Trustee Trust Funds  
Statement of Cash Flows  
For the Year Ended March 31, 2017

	2017	2016
<b>Operating Activities</b>		
Net and comprehensive loss from operations	\$ (1,298,740)	\$ (1,829,213)
Deduct non-cash transactions:		
Unrealized (gains) losses	<u>(601,598)</u>	<u>134,121</u>
Net and comprehensive loss from operations - cash basis	<u>(1,900,338)</u>	<u>(1,695,092)</u>
<b>Increase in Estates and Trusts</b>		
Sale of securities	5,143,985	9,156,396
Sale of real estate and other assets	1,841,496	1,062,504
Cash holdings of estates and trusts	<u>8,074,925</u>	<u>7,673,219</u>
	<u>15,060,406</u>	<u>17,892,119</u>
<b>Decrease in Estates and Trusts</b>		
Purchase of securities	(8,941,449)	(7,413,914)
Distribution of cash holdings in estates and trusts	(5,330,611)	(5,455,789)
Change in Common Fund cash position	6,772	(8,557)
Transfer to Province	<u>(68,785)</u>	<u>(69,641)</u>
	<u>(14,334,073)</u>	<u>(12,947,901)</u>
<b>(Decrease) increase in cash</b>	(1,174,005)	3,249,126
<b>Cash, beginning of year</b>	<u>5,007,831</u>	<u>1,758,705</u>
<b>Cash, end of year</b>	<u>\$ 3,833,826</u>	<u>\$ 5,007,831</u>

See accompanying notes to the financial statements

Public Trustee Trust Funds  
Notes to the Financial Statements  
For the Year Ended March 31, 2017

**1. Reporting Entity**

The Public Trustee was established pursuant to the Public Trustee Act and is independent of government. The Public Trustee is set up as a corporation to protect the financial and personal well-being of clients. The Public Trustee is empowered to perform the duties of a guardian, custodian, trustee, and executor or administrator of an estate. All investments by the Public Trustee are to be made in accordance with the Trustee Act.

This set of financial statements reflects the net assets held in trust and the activity for the estates and trusts administered by the Public Trustee. Separate operating costs for the Public Trustee are presented in Note 9.

**2. Basis of Preparation**

**(a) Statement of Compliance**

These financial statements have been prepared in accordance with the principles of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The financial statements for the year ended March 31, 2017, including comparative were approved and authorized by the Public Trustee on July 6, 2017.

**(b) Basis of Measurement**

The financial statements have been prepared on the historical cost basis except for securities, real estate, other assets, and amounts receivable and payable which are presented at fair value.

**(c) Functional and Presentational Currency**

The financial statements are presented in Canadian dollars, which is the functional currency for the Public Trustee.

**(d) Use of Estimates and Judgments**

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reporting amounts of assets, liabilities, income, and expenses. Actual results could differ from management's best estimates as additional information becomes available in the future.



### 3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

#### (a) Initial Recognition and Valuation of Assets and Liabilities

The Public Trustee administers client investments, real property, and other assets (eg. vehicles, jewelry). On initial recognition, these assets and liabilities are recorded at fair value on the effective date the Public Trustee commences administration of the asset or liability.

Other assets, including personal effects, are carried at fair value. Fair value is determined through appraisal where deemed appropriate. For some other assets where no observable market exists, these assets remain valued at a nominal amount (\$1) until such time that more reliable valuation information is available.

#### (b) Subsequent Valuation

##### *Real Estate*

IFRS requires that, in the absence of an IFRS that can be specifically applied to a situation, management should use judgment in developing and applying an accounting policy to provide relevant, reliable, and prudent information. In these instances, it is suggested that IFRS requirements in dealing with similar issues are applied, as well as measurement concepts included within the IFRS framework.

Real estate included within the statement of net assets held in trust primarily represents the value of residential properties currently occupied by the clients administered by the Public Trustee, or forming part of their estates. Real estate is carried at fair value in the statement of net assets held in trust, as determined by professional appraisals or, where an appraisal is not available or is not current, as determined from the most recent property assessment or other relevant valuation data.

##### *Investments*

Client securities are carried at fair value in the statement of net assets held in trust as determined by external third party information.

The composition of securities administered by the Public Trustee is as follows:

i) Guaranteed Investment Certificates	76%
ii) Equity Securities	14%
iii) Bonds	2%
iv) Other (RRSPs, RRIFs, Mutual Funds)	8%

**3. Summary of Significant Accounting Policies (continued)**

***Other Assets***

Other client assets are carried at fair value in the statement of net assets held in trust as determined by appraisal where deemed appropriate, or, where no active market exists, are held at a nominal value (\$1).

**(c) Revenue Recognition**

Income from pensions, benefits and settlements, as well as interest and other investment income are recognized as earned on an accrual basis.

Gains and losses on assets represent the appreciation or depreciation in the value of assets administered by the Public Trustee from the value assigned on the date of the commencement of administration of assets by the Public Trustee, the date of purchase, or the value at the prior year end. Such gains and losses become realized on the date the assets are sold or released to clients, beneficiaries or heirs. Both realized gains and losses and changes in unrealized gains and losses are reported in the statement of net and comprehensive loss.

**(d) Cash and Cash Equivalents**

Investments held by the Public Trustee are highly liquid and may be easily drawn upon by the Public Trustee in administering the estates and trusts.

**4. Financial Risk Management**

Section 3a(1) of the *Public Trustee Act* grants all trustees the authority to invest in any form of property or security, including a security issued by a mutual fund. The standard of care, skill, diligence, and judgment imposed by the section is that of a prudent investor. The Public Trustee utilizes a conservative investment management orientation. All trust property must be invested in a manner that reflects the standard and high duty of care required to fulfill the responsibilities of the Public Trustee. The Public Trustee's long-term objectives as a prudent investor are threefold:

- i) to minimize any loss of capital;
- ii) where possible, to provide income sufficient to meet the individual client's or trust's ongoing income needs; and
- iii) for clients or trusts with higher risk tolerances or longer term investment horizons, the potential for capital appreciation.

Public Trustee Trust Funds  
Notes to the Financial Statements  
For the Year Ended March 31, 2017

**4. Financial Risk Management (continued)**

The majority of the accounts held by the Public Trustee are administered on behalf of clients and are not held in a pooled fund. Clients with five years or less projected investment horizon with the Public Trustee may have their excess funds invested in a combination of cashable guaranteed investment certificates (GICs), treasury bills, fixed term GICs and bonds with a maximum investment period of five years.

**Liquidity risk**

Liquidity risk is the risk that a client account is unable to meet its financial obligations as they come due. The Public Trustee minimizes this risk by ensuring that client accounts hold sufficient cash funds to meet current liabilities and expenses and considers liquidity risk at March 31, 2017 to be insignificant.

**Credit risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment it has entered into, resulting in a financial loss. The investment policy established by the Public Trustee limits credit risk in the following manner: client excess funds invested in GICs are not to exceed \$95,000 from a national bank or trust company or \$235,000 from a credit union. This ensures that if a financial institution defaulted, the client would receive from the insurance plan the client's principal plus any accrued interest. Bonds purchased with client excess funds must have a minimum rating of BBB by the Dominion Bond Rating Service or an equivalent rating by another recognized rating agency.

**Interest rate risk**

Interest rate risk is the risk that the fair value or cash flows of interest bearing investments will fluctuate due to changes in market interest rates. Investments in guaranteed investment certificates and other term deposits with a maturity greater than one year are subject to interest rate risk. The effect on net income of a 1% change in interest rates on term deposits with a maturity of greater than one year would be estimated at \$118,328 (2016 - \$110,807). Because most term deposits held by the Public Trustee have a term to maturity of one year or less, interest rate risk is not considered significant. The Public Trustee mitigates this risk by investing excess client funds in a diversified portfolio, including investing in fixed rate securities.

**5. Securities, Real Estate, and Other Assets**

Securities, real estate, and other assets are comprised of the following balances:

	2017	2016
Securities	\$ 42,843,452	\$ 38,783,051
Real Estate	5,821,568	6,442,893
Other Assets	<u>388,868</u>	<u>370,637</u>
	<u>\$ 49,053,888</u>	<u>\$ 45,596,581</u>

Public Trustee Trust Funds  
Notes to the Financial Statements  
For the Year Ended March 31, 2017

**6. Common Fund Securities**

Section 30 of the Public Trustee Act permits the Public Trustee to invest monies, not subject to any express trust or direction for investment thereof, into a Common Fund. Investments of the Common Fund are valued at market value as of March 31, 2017. The Common Fund serves as a general bank account for its clients and allows the Public Trustee to pool small value client accounts in order to provide more substantial balances used to purchase income-generating investments.

The interest to be paid to clients with funds in the Common Fund is determined by a regulation which is as follows: the prescribed rate of interest is a floating rate ascertained by the Public Trustee half yearly, and is one percent less than the rate arrived at by averaging the lowest rate offered during the period on savings - non-chequing accounts by the Canadian Imperial Bank of Commerce and the Royal Bank of Canada at their respective Halifax branches. In addition, the regulation provides that, in order to earn interest, the client's account must have had a minimum quarterly balance of \$1,000 or more and must have been held in trust by the Public Trustee for more than three months.

Due to the fact that the current interest rate is below the prescribed rate, all interest received in the Common Fund during the year will be transferred to the Special Reserve Fund after providing for bank fees and other charges in the Common Fund, in accordance with the Public Trustee Act.

A continuity of the Common Fund is as follows:

	2017	2016
<b>Balance, beginning of year</b>	\$ 2,987,536	\$ 2,974,186
<b>Add:</b>		
Purchase of securities	5,476	19,629
Interest and investment income	<u>122,419</u>	<u>124,106</u>
	3,115,431	3,117,921
<b>Less:</b>		
Disbursements	(3,340)	(5,871)
Amount to be transferred to the Special Reserve Fund	<u>(117,742)</u>	<u>(124,514)</u>
<b>Balance, end of year</b>	<u>\$ 2,994,349</u>	<u>\$ 2,987,536</u>

The balance of the Common Fund consists of:

Cash	\$ 117,742	\$ 124,514
Investments	2,993,012	2,993,815
Payables (including \$117,742 to the Special Reserve Fund. 2016 - \$124,514)	<u>(116,405)</u>	<u>(130,793)</u>
	<u>\$ 2,994,349</u>	<u>\$ 2,987,536</u>

Public Trustee Trust Funds  
Notes to the Financial Statements  
For the Year Ended March 31, 2017

**7. Special Reserve Fund**

Section 32 of the Public Trustee Act provides for the establishment of a Special Reserve Fund. The Fund is administered by the Public Trustee and held in joint trust with the Deputy Minister of Finance and Treasury Board.

The stated purpose of the Fund is to provide for any future deficiency in the Common Fund. Investment income earned in the Common Fund in excess of the prescribed interest paid to clients' accounts is transferred to the Special Reserve Fund annually as required by the Public Trustee Act.

Income received on investments in the Special Reserve Fund may be transferred to the Province's general revenues in such amounts as may be determined by the Public Trustee and the Deputy Minister of Finance and Treasury Board. Such transfers are applied to the cost of administration of the Common Fund, the Special Reserve Fund, and the Public Trustee Office.

On an annual basis the Public Trustee consults with the Deputy Minister of Finance and Treasury Board, and the decision has been to transfer the Special Reserve Fund interest to the Minister of Finance for the purposes prescribed in legislation. Interest received during the year to be transferred to the Province totalled \$90,622 (2016 - \$95,018).

The continuity of the Special Reserve Fund is as follows:

	2017	2016
<b>Balance, beginning of year</b>	\$ 3,120,446	\$ 3,001,938
<b>Add:</b> Interest income and gains (losses)	95,949	94,887
Net amount to be transferred from the Common Fund	<u>117,742</u>	<u>124,514</u>
	3,334,137	3,221,339
<b>Less:</b> Amount transferred to the Province of Nova Scotia	<u>(95,018)</u>	<u>(100,893)</u>
<b>Balance, end of year</b>	<u>\$ 3,239,119</u>	<u>\$ 3,120,446</u>
The balance of the Special Reserve Fund consists of:		
Cash	\$ 99,155	\$ 102,956
Receivables	163,448	166,130
Investments	<u>2,976,516</u>	<u>2,851,360</u>
	<u>\$ 3,239,119</u>	<u>\$ 3,120,446</u>

Public Trustee Trust Funds  
Notes to the Financial Statements  
For the Year Ended March 31, 2017

**8. Fair Values**

Client investments and Common Fund assets as well as other financial assets are reflected in the statement of net assets held in trust at fair value. In management's opinion, the fair value of cash and accrued interest approximates their carrying value due to the short term to maturity.

*Fair Value Hierarchy* - The three levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active market).

Level 3 – Inputs that are unobservable; there is little, if any, market data. Fair value determination would generally require significant management judgment or estimation.

As at March 31, 2017, client investments and Common Fund investments were valued using Level 2 inputs. During the year ended March 31, 2017, there was no transfer between Level 2 and the other levels in the fair value hierarchy.

**9. Operating Costs**

Operating costs of the Public Trustee are absorbed by the Nova Scotia Department of Justice and are not reflected in the Statement of Net and Comprehensive Loss. These costs are offset by fees charged for administering estates, recoveries of client expenses paid by the Public Trustee, and transfers of investment income from the Special Reserve Fund.

	2017	2016
Department of Justice		
Salaries and benefits	\$ 1,915,559	\$ 1,867,657
Other operating costs	138,867	168,783
Rent	<u>156,165</u>	<u>156,165</u>
	<u>2,210,591</u>	<u>2,192,605</u>
Less transfers to the Province		
Fees	1,026,881	971,672
Recoveries	16,581	17,276
Special Reserve Fund Income	<u>95,018</u>	<u>100,893</u>
	<u>1,138,480</u>	<u>1,089,841</u>
Net cost to the Province	<u>\$ 1,072,111</u>	<u>\$ 1,102,764</u>

Fees and recoveries totaling \$1,043,462 (2016 - \$988,948) represent cash payments to the Province. They are net of HST of \$154,407 (2016 - \$146,588) and net accrued fees of (\$51,925) (2016 - \$46,868). The total gross amount of these fees and recoveries is \$1,145,944 (2016 - \$1,182,404) and is disclosed on the Statement of Net and Comprehensive Loss.