
Public Trustee Trust Funds

Financial Statements

For the Year Ended March 31, 2018

Management's Responsibility for the Financial Statements

These financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all the notes to the financial statements, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

The Public Trustee is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Public Trustee performs monthly reviews of financial information and a yearly review of the final audited financial statements.

The external auditor, Office of the Auditor General of Nova Scotia, conducts an independent examination, in accordance with Canadian auditing standards, to express their opinion on the financial statements. The external auditors have full and free access to financial management of the Public Trustee Trust Funds and meet when required.

On behalf of the Public Trustee Trust Funds



Shannon Ingraham-Christie
Public Trustee



Beverly Whittaker-Taggart
Director, Finance, Administration & Systems



5161 George Street
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Auditor General of Nova Scotia

INDEPENDENT AUDITOR'S REPORT

To the Public Trustee of Nova Scotia

Report on the Financial Statements

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, 2018, 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, 2018, 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 Nova Scotia

Halifax, Nova Scotia
June 28, 2018



Public Trustee Trust Funds
Statement of Net Assets Held in Trust
March 31, 2018

	2018	2017
Assets		
Estates and Trusts		
Cash and cash equivalents	\$ 6,685,734	\$ 3,833,826
Investments		
Securities, real estate and other assets (Note 5)	46,471,233	49,053,888
Common Fund Securities (Note 6)	2,988,153	2,994,349
Special Reserve Fund (Note 7)	3,401,678	3,239,119
Accounts receivable and accrued interest	<u>804,993</u>	<u>842,052</u>
	<u>60,351,791</u>	<u>59,963,234</u>
Liabilities		
Estates and Trusts		
Due to Special Reserve Fund	278,494	117,742
Accounts payable	<u>708,972</u>	<u>538,653</u>
	<u>987,466</u>	<u>656,395</u>
Net Assets Held in Trust	<u>\$ 59,364,325</u>	<u>\$ 59,306,839</u>

See accompanying notes to the financial statements

Approved on behalf of the Public Trustee Trust Funds for the Province of Nova Scotia


Shannon Ingraham

Public Trustee Trust Funds
Statement of Net and Comprehensive Loss
For the Year Ended March 31, 2018

	2018	2017
Revenues		
Pension	\$ 8,493,911	\$ 8,444,366
Investment income	703,722	708,183
Other	869,745	1,038,001
Annuities	<u>541,968</u>	<u>651,164</u>
	10,609,346	10,841,714
Common Fund interest and investment income (Note 6)	<u>161,771</u>	<u>122,419</u>
	<u>10,771,117</u>	<u>10,964,133</u>
Expenses		
Accommodation	7,390,842	7,550,436
Fees charged by the Public Trustee paid to the Province (Note 10)	1,372,598	1,145,944
Taxes	781,267	696,927
Funeral	487,536	525,733
Medical	407,331	397,867
Allowances	410,149	375,949
Real estate	137,066	187,942
Legal costs	255,893	236,341
Property care	217,376	160,139
Utilities	138,342	142,370
Common Fund interest income to be transferred to the Special Reserve Fund (Note 7)	160,752	117,742
Insurance	102,795	97,008
Miscellaneous	<u>50,896</u>	<u>77,243</u>
	<u>11,912,843</u>	<u>11,711,641</u>
Loss from operations	(1,141,726)	(747,508)
Realized loss on sale of investments	(1,138,341)	(1,152,830)
Unrealized (loss) gain on investments	<u>(616,584)</u>	<u>601,598</u>
Net and comprehensive loss	<u>\$ (2,896,651)</u>	<u>\$ (1,298,740)</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, 2018

	2018	2017
Balance, beginning of year	\$ 59,306,839	\$ 56,830,441
Add: Estates and trusts of new clients and additional assets of existing clients	12,336,114	14,490,824
Net and comprehensive loss	(2,896,651)	(1,298,740)
Special Reserve Fund Income (Note 7)	<u>253,181</u>	<u>213,691</u>
	<u>9,692,644</u>	<u>13,405,775</u>
Less: Distribution of estates and trusts	9,419,630	10,767,076
Undistributable estates and trusts (Note 8)	124,906	67,283
Special Reserve Fund Distribution (Note 7)	<u>90,622</u>	<u>95,018</u>
	<u>9,635,158</u>	<u>10,929,377</u>
Balance, end of year	<u>\$ 59,364,325</u>	<u>\$ 59,306,839</u>

See accompanying notes to the financial statements

Public Trustee Trust Funds
Statement of Cash Flows
For the Year Ended March 31, 2018

	2018	2017
Operating Activities		
Net and comprehensive loss	\$ (2,896,651)	\$ (1,298,740)
Deduct non-cash transactions:		
Unrealized loss (gain)	<u>616,584</u>	<u>(601,598)</u>
Net and comprehensive loss - cash basis	<u>(2,280,067)</u>	<u>(1,900,338)</u>
Increase in Investments		
Proceeds from sale of securities	11,678,218	5,143,985
Proceeds from sale of real estate and other assets	2,169,251	1,841,496
Cash holdings of estates and trusts	<u>8,208,614</u>	<u>8,074,925</u>
	<u>22,056,083</u>	<u>15,060,406</u>
Decrease in Investments		
Purchase of securities	(9,630,387)	(8,941,449)
Distribution of cash holdings in estates and trusts	(7,008,063)	(5,330,611)
Change in Common Fund cash position	(160,752)	6,772
Undistributable estates- trusts transferred to the Province (Note 8)	<u>(124,906)</u>	<u>(68,785)</u>
	<u>(16,924,108)</u>	<u>(14,334,073)</u>
Increase (decrease) in cash and cash equivalents	2,851,908	(1,174,005)
Cash and cash equivalents, beginning of year	<u>3,833,826</u>	<u>5,007,831</u>
Cash and cash equivalents, end of year	<u>\$ 6,685,734</u>	<u>\$ 3,833,826</u>

See accompanying notes to the financial statements

Public Trustee Trust Funds
Notes to the Financial Statements
For the Year Ended March 31, 2018

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, representative, custodian, trustee, 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 10.

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. These financial statements have been authorized for issue by the Public Trustee Trust Funds on June 28, 2018.

(b) Basis of Measurement

The financial statements have been prepared on the historical cost basis except for securities, real estate, other assets, common fund and special reserve fund which are presented at fair value.

(c) 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 and will be recognized in the period in which the estimates are revised. Significant judgments include those related to the valuation of investments as described in notes 3b), 4 and 9.

Public Trustee Trust Funds
Notes to the Financial Statements
For the Year Ended March 31, 2018

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

On initial recognition, assets and liabilities are recorded at fair value on the effective date the Public Trustee commences administration of the asset or liability.

Securities, real estate, common fund and special reserved fund are recorded at fair value.

Other assets, including personal effects such as mobile homes, vehicles and jewelry, 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.

Accounts receivable and accrued interests are carried at cost.

Accounts payable are carried at cost.

(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. These properties do not meet the definition of property, plant and equipment, nor investment property. 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.

Securities and Common fund

Estates and trusts 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 and common fund administered by the Public Trustee is as follows:

i) Guaranteed Investment Certificates	74%
ii) Equity Securities	15%
iii) Bonds	1.5%
iv) Other (RRSPs, RRIFs, Mutual Funds)	9.5%

Public Trustee Trust Funds
Notes to the Financial Statements
For the Year Ended March 31, 2018

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, as well as investment income are recognized as earned on an accrual basis.

Other income is mostly composed of Canada Revenue Agency refunds and credits and is 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

Cash and cash equivalent are comprised of cash and investments held by the Public Trustee. They 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* allows the Public Trustee to delegate authority to employees to invest in most forms of financial securities, 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 strategy. 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, 2018

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, 2018 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.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types or risk: currency risk, interest rate risk and other price risk. The Public Trustee is subject to interest rate risk and other price risk.

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 \$98,689 (2017 - \$118,328). 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.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market. The Public Trustee is subject to this risk with its equity securities composed mostly of stocks (15% see Note 3 b)). It mitigates this risk by investing only in very low risk stocks.

Public Trustee Trust Funds
Notes to the Financial Statements
For the Year Ended March 31, 2018

5. Securities, Real Estate, and Other Assets

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

	2018	2017
Securities	\$ 40,871,001	\$ 42,843,452
Real Estate	5,131,339	5,821,568
Other Assets	<u>468,893</u>	<u>388,868</u>
	<u>\$ 46,471,233</u>	<u>\$ 49,053,888</u>

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, 2018. 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. The amounts for 2016-2017 and 2017-2018 have been recorded but the funds have not been transferred as this process is currently under review.

Public Trustee Trust Funds
Notes to the Financial Statements
For the Year Ended March 31, 2018

6. Common Fund Securities (continued)

A continuity of the Common Fund is as follows:

	2018	2017
Balance, beginning of year	\$ 2,994,349	\$ 2,987,536
Add: Purchase of securities	(3,806)	5,476
Interest and investment income	<u>161,771</u>	<u>122,419</u>
	3,152,314	3,115,431
Less: Disbursements	(3,409)	(3,340)
Amount to be transferred to the Special Reserve Fund	<u>(160,752)</u>	<u>(117,742)</u>
Balance, end of year	<u>\$ 2,988,153</u>	<u>\$ 2,994,349</u>

The balance of the Common Fund consists of:

Cash	\$ 278,494	\$ 117,742
Investments	2,990,543	2,993,012
Payables (1)	<u>(280,884)</u>	<u>(116,405)</u>
	<u>\$ 2,988,153</u>	<u>\$ 2,994,349</u>

(1) Includes \$278,494 payable to the Special Reserve Fund. (2018 \$160,752 and 2017 \$117,742). This amount is currently under review.

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 normally 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 previously had been to transfer the Special Reserve Fund interest to the Minister of Finance for the purposes prescribed in the legislation. The process for transferring Special Reserve Fund interest to the Minister of Finance is currently under review.

Public Trustee Trust Funds
Notes to the Financial Statements
For the Year Ended March 31, 2018

7. Special Reserve Fund (continued)

The continuity of the Special Reserve Fund is as follows:

	2018	2017
Balance, beginning of year	\$ 3,239,119	\$ 3,120,446
Add: Interest income and gains (losses)	92,429	95,949
Net amount to be transferred from the Common Fund	<u>160,752</u>	<u>117,742</u>
	3,492,300	3,334,137
Less: Amount transferred to the Province of Nova Scotia	0	(95,018)
Amount owed to the Province of Nova Scotia	<u>(90,622)</u>	<u>0</u>
Balance, end of year	<u>\$ 3,401,678</u>	<u>\$ 3,239,119</u>

The balance of the Special Reserve Fund consists of:

Cash	\$ 193,588	\$ 99,155
Receivables	322,196	163,448
Investments	2,976,516	2,976,516
Payable	<u>(90,622)</u>	<u>0</u>
	<u>\$ 3,401,678</u>	<u>\$ 3,239,119</u>

8. Undistributable estates and trusts

Undistributable assets are transferred to the Minister of Finance when they are deemed undistributable under Section 28 of the Public Trustee Act.

9. 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 – Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:

- (i) Quoted prices for similar assets or liabilities in active markets.
- (ii) Quoted prices for identical or similar assets or liabilities in markets that are not active.
- (iii) Inputs other than quoted prices that are observable for the asset or liability.
- (iv) Market-corroborated inputs.

Public Trustee Trust Funds
Notes to the Financial Statements
For the Year Ended March 31, 2018

9. Fair Values (continued)

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

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2018 classified within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total Fair Value
Securities	\$ 6,713,275	\$ 34,157,726	\$ 0	\$ 40,871,001
Real Estate	0	5,131,339	0	5,131,339
Other Assets (1)	0	468,893	0	468,893
Total Securities, Real Estate & Other Assets	\$ 6,713,275	\$ 39,757,958	\$ 0	\$ 46,471,233
Common Fund	\$ 0	\$ 2,988,153	\$ 0	\$ 2,988,153
Special Reserve Fund	\$ 0	\$ 3,401,678	\$ 0	\$ 3,401,678

(1) Other assets are comprised of nominal valued Jewelry, Automobiles and non-fixed Homes. The value of Jewelry and automobiles is deemed too low to be presented separately.

During the year ended March 31, 2018, listed equity securities with a fair value of \$6,713,275, classified as Level 2 as at March 31, 2017 were transferred to Level 1 as a result of an analysis by the Public Trustee, which determined that these securities were Level 1 in nature.

10. 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.

	2018	2017
Department of Justice		
Salaries and benefits	\$ 2,063,052	\$ 1,915,559
Other operating costs	194,555	138,867
Rent	156,165	156,165
	<u>2,413,772</u>	<u>2,210,591</u>
Less transfers to the Province		
Fees	1,182,758	1,026,881
Recoveries	20,150	16,581
Special Reserve Fund Income transferred	0	95,018
Special Reserve Fund owed	90,622	0
Net cost to the Province	<u>1,293,530</u>	<u>1,138,480</u>
	<u>\$ 1,120,242</u>	<u>\$ 1,072,111</u>

Public Trustee Trust Funds
Notes to the Financial Statements
For the Year Ended March 31, 2018

10. Operating Costs (continued)

Fees and recoveries totaling \$1,202,908 (2017 - \$1,043,462) represent cash payments to the Province. They are net of HST of \$177,868 (2017 - \$154,407) and net accrued fees of (\$8,178) (2017 - (\$51,925)). The total amount of these fees and recoveries is \$1,372,598 (2017 - \$1,145,944) and is disclosed on the Statement of Net and Comprehensive Loss.