
Public Trustee Trust Funds

Financial Statements

For the Year Ended March 31, 2020

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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.

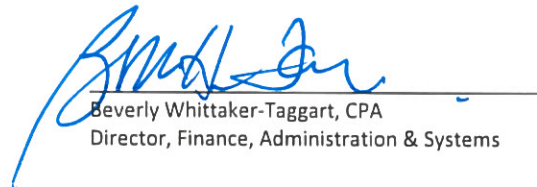
Management is responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced.

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, Grant Thornton LLP, 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 met when required.

On behalf of the Entity


Shannon Ingraham
Public Trustee


Beverly Whittaker-Taggart, CPA
Director, Finance, Administration & Systems

Independent auditor's report

Grant Thornton LLP
Nova Centre, North Tower
Suite 1000, 1675 Grafton Street
Halifax, NS
B3J 0E9
T +1 902 421 1734
F +1 902 420 1068

To the Public Trustee of Nova Scotia

Qualified Opinion

We have audited the financial statements of the Public Trustee Trust Funds (the "Entity"), which comprise the statement of net assets held in trust as at March 31, 2020, and the statement of loss and comprehensive loss, statement of changes in net assets held in trust, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Public Trustee Trust Funds as at March 31, 2020, and the results of its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

As discussed in Note 2 to the financial statements, neither a fair value model nor a cost model has been consistently established for real estate assets held on behalf of clients. This constitutes a departure from IFRS. As a result of a cost-benefit decision by management with respect to their clients and to taxpayers, appraisals have not been performed to establish fair value at March 31, 2020 or March 31, 2019. Similarly, initial and subsequent measurement based on cost has not been established given the age of certain properties, the nature in which the Entity assumes ownership of the real estate, and the lack of historical information to establish an accurate measurement basis. The impact of this departure on the financial statements has not been determined. Since the opening and ending real estate balance affects the determination of the results of operations and cash flows, we were not able to determine whether any adjustments might be necessary to real estate, expenses, cash flows and net assets for the years ended March 31, 2020 and March 31, 2019. Our audit opinion on the financial statements for the year ended March 31, 2019 was modified because of the effects of this departure from IFRS and the possible effects of this limitation in scope.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRSs), 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The logo for Grant Thornton LLP, featuring the company name in a stylized, cursive script.

Chartered Professional Accountants

Halifax, Canada
September 29, 2020

Public Trustee Trust Funds
Statement of net assets held in trust
March 31, 2020

	2020	2019
Assets		
Cash and cash equivalents	\$ 5,740,073	\$ 8,505,767
Accounts receivable	1,056,500	464,563
Investments (note 4)	41,297,517	46,501,502
Real estate	7,029,679	7,330,210
Other assets	<u>364,442</u>	<u>432,625</u>
	<u>55,488,211</u>	<u>63,234,667</u>
Liabilities		
Accounts payable	<u>1,037,970</u>	<u>506,349</u>
Net assets held in trust	<u>\$ 54,450,241</u>	<u>\$ 62,728,318</u>

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


Shannon Ingraham-Christie

See accompanying notes to the financial statements

Public Trustee Trust Funds
Statement of loss and comprehensive loss
For the Year Ended March 31, 2020

	2020	2019
Revenues		
Pension	\$ 9,993,831	\$ 9,182,127
Other income	1,112,748	1,186,726
Investment income	1,102,954	1,106,707
Annuities	<u>843,798</u>	<u>633,793</u>
	<u>13,053,331</u>	<u>12,109,353</u>
Expenses		
Accommodation	8,805,257	8,350,370
Fees and recoveries paid to the Province (Note 7)	1,474,466	1,475,172
Taxes	1,285,421	594,865
Funeral	766,247	587,204
Medical	509,129	418,900
Allowances	444,601	430,006
Property care	177,867	171,005
Legal costs	177,040	295,997
Utilities	150,890	159,821
Real estate	143,021	75,992
Miscellaneous	131,797	81,410
Insurance	<u>118,050</u>	<u>107,226</u>
	<u>14,183,786</u>	<u>12,747,968</u>
Loss from operations before loss on investments	(1,130,455)	(638,615)
Loss on sale of investments	(394,793)	(369,992)
Unrealized loss on investments at fair value through profit and loss	<u>(947,149)</u>	<u>(44,498)</u>
Net loss and comprehensive loss	<u>\$ (2,472,397)</u>	<u>\$ (1,053,555)</u>

See accompanying notes to the financial statements

Public Trustee Trust Funds
Statement of changes in net assets held in trust
For the Year Ended March 31, 2020

	2020	2019
Balance, beginning of year	\$ 62,728,318	\$ 59,364,325
Net loss and comprehensive loss	(2,472,397)	(1,053,555)
Other changes to net assets:		
Contributions of estates and trusts of new clients and additional contributions of estates and trusts	10,272,736	16,100,158
Distributions of estates and trusts	(15,837,114)	(11,145,336)
Undistributable trusts assets transferred to Province (note 8)	(147,108)	(442,841)
Special Reserve Fund distribution to Province (note 7)	<u>(94,194)</u>	<u>(94,433)</u>
Balance, end of year	<u>\$ 54,450,241</u>	<u>\$ 62,728,318</u>

See accompanying notes to the financial statements

Public Trustee Trust Funds
Statement of cash flows
For the Year Ended March 31, 2020

	2020	2019
Operating Activities		
Net comprehensive loss	\$ (2,472,397)	\$ (1,053,555)
Adjustments for:		
Realized loss	394,793	369,992
Unrealized loss	<u>947,149</u>	<u>44,948</u>
	(1,130,455)	(638,615)
Changes in working capital, net	<u>(60,316)</u>	<u>(137,707)</u>
Net cash from operating activities	<u>(1,190,771)</u>	<u>(776,322)</u>
Investing activities		
Proceeds from sale of investments, net	1,578,480	1,194,958
Proceeds from sale of real estate and other assets, net	3,126,953	2,231,426
Advances to Province	(94,194)	(185,055)
Undistributable assets transferred to Province	<u>(147,108)</u>	<u>(442,841)</u>
Net cash from investing activities	<u>4,464,131</u>	<u>2,798,488</u>
Financing activities		
Contributions of estates and trusts, net	<u>(6,039,054)</u>	<u>(674,215)</u>
Net cash from financing activities	<u>(6,039,054)</u>	<u>(674,215)</u>
Increase in cash and cash equivalents	(2,765,694)	1,347,951
Cash, beginning of year	<u>8,505,767</u>	<u>7,157,816</u>
Cash, end of year	<u>\$ 5,740,073</u>	<u>\$ 8,505,767</u>

See accompanying notes to the financial statements

Public Trustee Trust Funds
Notes to the Financial Statements
For the Year Ended March 31, 2020

1. Reporting entity

The Public Trustee (the “Entity”) is a corporation sole of the Province of Nova Scotia created pursuant to the Public Trustee Act. It is independent of government but shares a budget with the Department of Justice (“DOJ”) which the DOJ controls. The Entity 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 Entity are to be made in accordance with the Trustee Act and Public Trustee Act. The address of the Entity’s registered office is 5670 Spring Garden Rd, Halifax, Nova Scotia.

The Entity is exempt from income tax under section 149 of the *Income Tax Act*.

This set of financial statements reflects the net assets held in trust and the activity for the estates and trusts administered by the Entity. Separate operating costs for the Entity are presented in Note 7.

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 (“IASB”) with the exception of measurement for real estate, which is not in accordance with IAS 40 (see note 3(e)). They have been prepared under the assumption that the Entity operates on a going concern basis.

These financial statements have been authorized for issue by the Public Trustee on September 29, 2020.

(b) Basis of measurement

The financial statements have been prepared on an accrual basis under the historical cost basis except for certain financial instruments which are presented at fair value through profit and loss and certain real estate assets which are measured as described in note 3(b) and 3(e).

(c) Currency

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

Transactions in foreign currencies are translated into Canadian dollars using exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at the exchange rate at the reporting period end date.

(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. Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case, management uses the best information available. 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 3(b), 3(c), 3(d) and 4.

Public Trustee Trust Funds
Notes to the Financial Statements
For the Year Ended March 31, 2020

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) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and balances held with banks.

(b) Financial instruments

Recognition and derecognition

Financial instruments are classified as either amortized cost, or fair value through profit and loss. Financial assets and liabilities are initially recognized at fair value on the effective date the Entity commences administration of the financial asset or financial liability.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

The applicable financial instruments for the Entity are classified and measured as follows:

- Cash and cash equivalents – amortized cost;
- Accounts receivable – amortized cost;
- Accounts payable – amortized cost;
- Investments (excluding bonds) – fair value through profit and loss; and
- Investments (bonds) – amortized cost.

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable approximate their fair values due to the short-term maturity.

Classification and initial measurement of financial assets

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortized cost;
- fair value through profit or loss (FVTPL); and
- fair value through other comprehensive income (FVOCI).

In the periods presented the Entity does not have any financial assets categorized as FVOCI.

The classification is determined by both:

- the Entity's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

Public Trustee Trust Funds
Notes to the Financial Statements
For the Year Ended March 31, 2020

3. Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

Subsequent measurement of financial assets

Financial assets at amortized cost

Financial assets are measured at amortized cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, the financial assets are measured at amortized cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Entity's cash and cash equivalents, and accounts receivable fall into this category of financial instruments as well as listed bonds.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorized at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category. Their fair values are determined in line with the requirements of IFRS 9, which does not allow for measurement at cost. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognize expected credit losses (ECL).

The Entity makes use of a simplified approach in accounting for accounts receivable recording the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In estimating the ECL, the Entity uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses. The Entity assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics. The Entity's accounts receivable are not subject to significant credit risk as the amounts are owed largely by the federal government in the form of tax return refunds and pension annuities. An estimate of expected lifetime credit losses was determined to not be required as the Entity has not experienced bad debts on their receivables in their history of operations.

Classification and measurement of financial liabilities

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Entity designated a financial liability at fair value through profit or loss.

- i) Subsequently, financial liabilities are measured at amortized cost using the effective interest method. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

Public Trustee Trust Funds
Notes to the Financial Statements
For the Year Ended March 31, 2020

3. Summary of significant accounting policies (continued)

(c) Fair value measurement

All investments, with the exception of bonds which are designated at amortized cost, are designated as fair value through profit and loss. Realized gains and losses on the sale of investments and unrealized gains and losses arising from the change in fair value of investments are recorded through profit and loss in the period in which they arise. All purchases and sales of investments are recognized on the date the trades are executed. Income from interest and dividends are recognized as investment income in the period incurred.

Fair value is best evidenced by quoted market prices in an active market. Where quoted market prices are not available, the quoted prices of similar financial instruments are used to estimate fair value. Minimal management judgement is required for fair values calculated using quoted market prices. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

(d) Investments

The Entity employs a fair value hierarchy to categorize the inputs it uses in valuation techniques to measure the fair value. The extent of use of (Level 1) quoted prices in active markets for identical assets or liabilities, (Level 2) inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, and (Level 3) inputs for the asset or liability that are not based on observable market data in the valuation of securities as at the statement of net assets held in trust date is disclosed in Note 6.

(e) Real estate

Real estate assets are properties held in trust for clients. IAS 40, Investment Property, requires application of either the cost method or a fair value model as the measurement basis. The Entity has applied a separate policy for measuring the value of real estate assets as it is impractical to use fair value or cost measurement. Formal valuations or appraisals are not always performed given the disproportion between the cost to the Entity's clients and the benefit received. Relevant and reliable cost value is not available to establish cost as the basis of measure given the age of the properties and the nature of how the Entity comes in possession of real estate which involves receiving real estate assets held in trust for the Entity's clients rather than through purchases of real estate. Real estate included within the statement of net assets held in trust is measured either by the most recent property assessment or most recent professional appraisal, when available. The Entity does not record a provision for depreciation; however, changes in real estate property assessment values are recorded through profit and loss as investment income. The financial impact on the financial statements of this departure if the Entity were to comply with the standard is indeterminable given an unreasonable amount of financial resources would need to be spent to determine cost or fair value of real estate assets.

Public Trustee Trust Funds
Notes to the Financial Statements
For the Year Ended March 31, 2020

3. Summary of significant accounting policies (continued)

(f) Other assets

Other assets, including personal effects such as mobile homes, vehicles and jewelry, are recognized when the Entity commences administration of the assets. Other assets 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 until such time that more reliable valuation information is available.

(g) Investment income

Income from pensions, as well as investment income are recognized as earned on an accrual basis. Interest income is accrued using the effective interest method.

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 marketable securities, real estate and other assets administered by the Entity from the value assigned on the date of the commencement of administration of assets by the Entity, 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.

4. Investments

	2020 Market Value	2019 Market Value
Guaranteed Investment Certificates (note 4(a))	\$ 31,449,477	\$ 34,566,691
Bonds		
Corporate	467,065	462,239
Provincial	<u>1,374,458</u>	<u>1,519,691</u>
Total bonds (note 4(b))	<u>1,841,523</u>	<u>1,981,930</u>
Quoted investments		
Canadian equity	4,906,027	6,332,938
Canadian preferred	-	11,588
US equity	9,725	258,441
Mutual Funds	<u>1,132,634</u>	<u>1,578,305</u>
Total quoted investments	<u>6,048,386</u>	<u>8,181,272</u>
Investment cash	<u>1,958,131</u>	<u>1,771,609</u>
Total	<u>\$ 41,297,517</u>	<u>\$ 46,501,502</u>

Public Trustee Trust Funds
Notes to the Financial Statements
For the Year Ended March 31, 2020

4. Investments (continued)

	2020 Market Value	2019 Market Value
(a) Guaranteed Investment Certificates – maturity profile		
Maturing within one year	\$ 18,444,981	\$ 23,582,362
Maturing between one and five years	<u>13,004,496</u>	<u>10,984,329</u>
	<u>\$ 31,449,477</u>	<u>\$ 34,566,691</u>
(b) Bonds – maturity profile		
Maturing within one year	\$ 406,184	\$ 161,487
Maturing between one and five years	773,313	1,149,374
Maturing in greater than five years	<u>662,026</u>	<u>671,069</u>
	<u>\$ 1,841,523</u>	<u>\$ 1,981,930</u>

5. 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 Entity 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 Entity's long-term objectives as a prudent investor are threefold:

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

The majority of the accounts held by the Entity 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 Entity 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, specifically accounts payable, as they come due. The Entity 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, 2020 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. This risk specifically relates to accounts receivable, bonds and other investments.

The credit risk related to accounts receivable is assessed to be low due as the counterparties are primarily the federal government.

Public Trustee Trust Funds
Notes to the Financial Statements
For the Year Ended March 31, 2020

5. Financial risk management (continued)

Credit risk (continued)

The investment policy established by the Entity 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. The bond portfolio remains high quality with 92% of the bonds rated A or better. 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.

	2020	2019
Credit rating – Bonds		
	\$ 26,990	\$ 26,990
AAA	1,202,047	1,170,701
AA	464,818	636,571
A	<u>147,668</u>	<u>147,668</u>
BBB	<u>\$ 1,841,523</u>	<u>\$ 1,981,930</u>

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 of risk: currency risk, interest rate risk and other price risk. The Entity is subject to interest rate risk, currency risk, and other price risk.

A 1% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Entity's Canadian common equity of \$49,060 (2019 - \$63,329).

A 1% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Entity's US common equity of \$97 (2019 - \$2,584).

A 1% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Entity's mutual funds of \$11,326 (2019 - \$15,783).

A 1% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Entity's Canadian preferred equities of \$0 (2019 - \$116).

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 bonds with a maturity are subject to interest rate risk. The Entity mitigates this risk by investing excess client funds in a diversified portfolio, including investing in fixed rate securities.

At March 31, 2020 a 1% movement in interest rates, with all other variables held constant, could impact the market value of bonds by \$18,415 (2019 - \$19,819).

At March 31, 2020 a 1% movement in interest rates, with all other variables held constant, could impact the market value of GICs by \$311,119 (2019 - \$345,667).

Public Trustee Trust Funds
Notes to the Financial Statements
For the Year Ended March 31, 2020

5. Financial risk management (continued)

Currency risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in exchange rates and produce an adverse impact on net income when measured in the Entity's functional currency.

Net exposure to United States dollar denominated amounts (in United States Dollars), related to the investment portfolio, included in the balance sheet as at March 31, 2020 is \$6,912 (2019 - \$193,528).

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 Entity is subject to this risk with its equity securities composed mostly of stocks. It mitigates this risk by investing only in very low risk stocks.

6. Fair values

Client investments and certain other assets as well as other financial assets are reflected in the statement of net assets held in trust at fair value. The fair value of cash, accrued interest and accounts receivable approximates their carrying value due to the short term to maturity. In regards to bonds, their fair value is approximated by their carrying value. Real estate assets are excluded from the fair value hierarchy, due to the measurement basis as disclosed in note 3(e).

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.

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, 2020 classified within the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
GICs	\$ 31,449,477	\$ -	\$ -	\$ 31,449,477
Quoted investments	6,048,386	-	-	6,048,386
Bonds	-	<u>1,841,523</u>	-	<u>1,841,523</u>
	<u>\$ 37,497,863</u>	<u>\$ 1,841,523</u>	<u>\$ -</u>	<u>\$ 39,339,386</u>

Public Trustee Trust Funds
Notes to the Financial Statements
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6. Fair values (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2019 classified within the fair value hierarchy:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
GICs	\$ 34,566,691	\$ -	\$ -	\$ 34,566,691
Quoted investments	8,181,272	-	-	8,181,272
Bonds	<u>-</u>	<u>1,981,930</u>	<u>-</u>	<u>1,981,930</u>
	<u>\$ 42,747,963</u>	<u>\$ 1,981,930</u>	<u>\$ -</u>	<u>\$ 44,729,893</u>

7. Related party disclosures

The Province of Nova Scotia, its Agencies and its Crown Corporations are related parties to the Entity. Under IAS 24 Related Party Disclosures, a reporting entity is exempt from the disclosure requirements of paragraph 18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control or joint control of, or significant influence over, the reporting entity; and
- b) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

As a result, the Entity has applied this exemption to these financial statements. In applying this exemption, the Entity must disclose the nature and amount of each individually significant transaction and for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

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

	2020	2019
Operating expenses paid by the Province of Nova Scotia		
Salaries and benefits	\$ 2,194,380	\$ 2,088,221
Other operating costs	275,162	198,270
Rent	<u>174,552</u>	<u>178,772</u>
	<u>2,644,094</u>	<u>2,465,263</u>
Fees and recoveries paid to the Province of Nova Scotia		
Fees	1,250,677	1,236,877
Recoveries	22,144	17,921
Special Reserve Fund income transferred	<u>94,194</u>	<u>90,433</u>
	<u>1,367,015</u>	<u>1,345,231</u>
Expenses paid by the Province of Nova Scotia, net	<u>\$ 1,277,079</u>	<u>\$ 1,120,032</u>

Public Trustee Trust Funds
Notes to the Financial Statements
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7. Related party disclosures (continued)

The above fees and recoveries totaling \$1,272,821 (2019 - \$1,254,798) represent cash payments to the Province. They are net of HST of \$188,280 (2019 - \$186,208) and net accrued fees of \$13,365 (2019 - \$34,166). The total amount of these Fees, Recoveries, HST, and net accrued fees is \$1,474,466 (2019- \$1,475,172) and is disclosed on the statement of loss and comprehensive loss. The remaining \$94,194 (2019 - 90,433) above represents investment income earned in the Special Reserve Fund and remitted to the Province of Nova Scotia.

In addition to the above, the Entity transfers undistributable assets to the Province of Nova Scotia as disclosed in note 8.

Key management personnel

All key management personnel and other staff are employees of the Province of Nova Scotia, as the Entity obtains key management services from the Province of Nova Scotia employees. The salaries and benefits for these employees is included in salaries and benefits above.

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. The proceeds are paid immediately to the Minister of Finance as a distribution through net assets.

9. 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, 2020. 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.

Public Trustee Trust Funds
Notes to the Financial Statements
For the Year Ended March 31, 2020

9. Common fund securities (continued)

A continuity of the Common Fund is as follows:

	2020	2019
Balance , beginning of year	\$ 2,989,949	\$ 2,988,153
Add: Purchase of securities	698	2,391
Interest and investment income	<u>261,365</u>	<u>253,924</u>
	3,252,012	3,244,468
Less: Disbursements	(4,038)	(3,395)
Amount to be transferred to the Special Reserve Fund	<u>(257,082)</u>	<u>(251,124)</u>
Balance , end of year	<u>\$ 2,990,892</u>	<u>\$ 2,989,949</u>

The balance of the Common Fund consists of the following amounts which are included with their respective Statement of Net Assets line:

	2020	2019
Cash	\$ 257,082	\$ 251,124
Investments	2,990,543	2,990,543
Payables	<u>(256,733)</u>	<u>(251,718)</u>
	<u>\$ 2,990,892</u>	<u>\$ 2,989,949</u>

Public Trustee Trust Funds
Notes to the Financial Statements
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10. 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 determined by the Public Trustee and the Deputy Minister of Finance and Treasury Board. During the year, \$94,194 of Special Reserve Fund interest has been transferred (2019 – 185,055 which was comprised of two years being transferred).

In the current year an additional \$100,171 has been received in interest payments. The Entity and the Deputy Minister of Finance and Treasury Board will determine whether any transfer will be made during the next fiscal year.

The continuity of the Special Reserve Fund is as follows:

	2020	2019
Balance , beginning of year	\$ 3,655,778	\$ 3,401,678
Add: Interest income and gains (losses)	98,118	97,409
Net amount to be transferred from the Common Fund	<u>257,082</u>	<u>251,124</u>
	4,010,978	3,750,211
Less: Amount transferred to the Province of Nova Scotia	(94,194)	(94,433)
Balance , end of year	<u>\$ 3,916,784</u>	<u>\$ 3,655,778</u>

The balance of the Special Reserve Fund consists of the following amounts which are included with their respective statement of net assets line:

	2020	2019
Cash	\$ 108,890	\$ 102,913
Receivables	303,135	298,041
Investments	<u>3,504,759</u>	<u>3,254,824</u>
	<u>\$ 3,916,784</u>	<u>\$ 3,655,778</u>