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# Public Trustee Trust Funds

Financial Statements

For the Year Ended March 31, 2016

## 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:

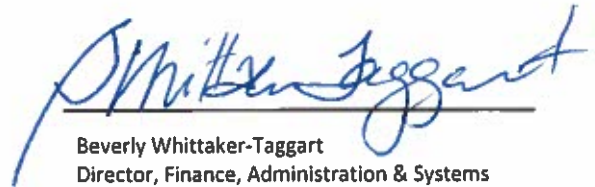
- the preparation of the financial statements is in accordance with IFRS;
- significant assumptions used by us in making accounting estimates, including those measured at fair value and at nominal value, are reasonable; and
- significant accounting policies under IFRS have been determined by us to represent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

The Office of the Auditor General of Nova Scotia has audited the Public Trustee financial statements in accordance with International Financial Reporting Standards.

The Auditor's responsibility is to express an opinion on the fairness of management's financial statements. The 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



5161 George Street  
Royal Centre Suite 400  
Halifax, Nova Scotia  
B3J 1M7

# Auditor General of Nova Scotia

## INDEPENDENT AUDITOR'S REPORT

To the Public Trustee and to the Attorney General:

### ***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, 2016, and the statements of Net and Comprehensive Loss, Continuity of Net Assets Held in Trust, and Cash Flows, for the year then ended, and a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibilities 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 judgement, 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 the 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 qualified audit opinion.

### ***Basis for Qualified Opinion***

Due to the nature of the court process of assigning clients to the Public Trustee, it is not possible to verify by audit procedures that all client assets, or the income related to these assets, came under the administration of, or were recorded by, the Public Trustee. Accordingly, my verification of trust assets and related income was limited to those recorded in the accounts.

### ***Qualified Opinion***

In my opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Public Trustee Trust Funds as at March 31, 2016, and its financial performance, and its changes in net assets 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  
July 11, 2016

5161 GEORGE STREET  
ROYAL CENTRE SUITE 400  
HALIFAX, NS B3J 1M7  
MICHAEL.PICKUP@NS.AS.NOVASCOTIA.CA

Public Trustee Trust Funds  
Statement of Net Assets Held in Trust  
March 31, 2016

	2016	2015
<b>Assets</b>		
<b>Estates and Trusts</b>		
Cash	\$ 5,007,831	\$ 1,758,705
Securities, real estate and other assets (Note 5)	45,596,581	47,713,056
Common Fund Securities (Note 6)	2,987,536	2,974,186
Special Reserve Fund (Note 7)	3,120,446	3,001,938
Accounts receivable and accrued interest	<u>587,919</u>	<u>705,811</u>
	<u>57,300,313</u>	<u>56,153,696</u>
<b>Liabilities</b>		
<b>Estates and Trusts</b>		
Due to Special Reserve Fund	124,514	115,957
Accounts payable	<u>345,358</u>	<u>511,848</u>
	<u>469,872</u>	<u>627,805</u>
<b>Net Assets Held in Trust</b>	<u>\$ 56,830,441</u>	<u>\$ 55,525,891</u>

Approved:



Public Trustee  
Shannon Ingraham-Christie

See accompanying notes to the financial statements

Public Trustee Trust Funds  
Statement of Net and Comprehensive Loss  
For the Year Ended March 31, 2016

	2016	2015
<b>Revenues</b>		
Pension	\$ 8,030,619	\$ 7,539,697
Investment income	800,481	680,378
Other	790,601	1,004,406
Annuities	<u>660,632</u>	<u>668,345</u>
	10,282,333	9,892,826
Common Fund interest and investment income (Note 6)	<u>124,106</u>	<u>117,025</u>
	<u>10,406,439</u>	<u>10,009,851</u>
<b>Expenses</b>		
Accommodation	7,174,578	7,032,420
Fees charged by the Public Trustee paid to the Province (Note 9)	1,182,404	1,080,073
Taxes	885,142	590,194
Funeral	513,260	445,458
Medical	377,845	373,725
Allowances	371,788	346,455
Real estate	222,747	115,394
Legal costs	195,228	200,024
Property care	192,744	206,432
Utilities	140,292	142,064
Common Fund interest income to be transferred to the Special Reserve Fund (Note 7)	124,514	115,957
Insurance	101,669	135,248
Miscellaneous	<u>76,266</u>	<u>36,919</u>
	<u>11,558,477</u>	<u>10,820,363</u>
<b>Loss from operations</b>	(1,152,038)	(810,512)
Realized loss on sale of assets held in trust	(543,054)	(746,578)
Unrealized (loss) gain on assets held in trust at year end	<u>(134,121)</u>	<u>178,498</u>
<b>Net and comprehensive loss</b>	<u>\$ (1,829,213)</u>	<u>\$ (1,378,592)</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, 2016

	2016	2015
<b>Balance, beginning of year</b>	\$ 55,525,891	\$ 52,508,079
<b>Add:</b> Estates and trusts of new clients and additional assets of existing clients	13,972,525	18,916,733
Net and comprehensive loss	(1,829,213)	(1,378,592)
Special Reserve Fund Income (Note 7)	<u>219,401</u>	<u>211,497</u>
	<u>12,362,713</u>	<u>17,749,638</u>
<b>Less:</b> Distribution of estates and trusts	10,887,629	14,500,079
Undistributable estates and trusts (per Section 28)	69,641	136,654
Special Reserve Fund Distribution (Note 7)	<u>100,893</u>	<u>95,093</u>
	<u>11,058,163</u>	<u>14,731,826</u>
<b>Balance, end of year</b>	<u>\$ 56,830,441</u>	<u>\$ 55,525,891</u>

See accompanying notes to the financial statements

Public Trustee Trust Funds  
Statement of Cash Flows  
For the Year Ended March 31, 2016

	2016	2015
<b>Operating Activities</b>		
Net and comprehensive loss from operations	\$ (1,829,213)	\$ (1,378,592)
Deduct non-cash transactions:		
Unrealized (losses) gains	<u>134,121</u>	<u>(178,498)</u>
Net and comprehensive loss from operations - cash basis	<u>(1,695,092)</u>	<u>(1,557,090)</u>
Increase in Estates and Trusts		
Sale of securities	9,156,396	5,234,044
Sale of real estate and other assets	1,062,504	1,850,909
Cash holdings of estates and trusts	<u>7,673,219</u>	<u>6,255,612</u>
	<u>17,892,119</u>	<u>13,340,565</u>
Decrease in Estates and Trusts		
Purchase of securities	(7,413,914)	(8,131,760)
Distribution of cash holdings in estates and trusts	(5,455,789)	(3,088,580)
Change in Common Fund cash position	(8,557)	19,280
Transfer to Province – Section 28	<u>(69,641)</u>	<u>(136,654)</u>
	<u>(12,947,901)</u>	<u>(11,337,714)</u>
Increase in cash	3,249,126	445,761
Cash, beginning of year	<u>1,758,705</u>	<u>1,312,944</u>
Cash, end of year	<u>\$ 5,007,831</u>	<u>\$ 1,758,705</u>

See accompanying notes to the financial statements

Public Trustee Trust Funds  
Notes to the Financial Statements  
For the Year Ended March 31, 2016

**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).

**(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 Property*

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 property 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 property 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	75%
ii) Equity Securities	14%
iii) Bonds	2%
iv) Other (RRSPs, RRIFs, Mutual Funds)	9%

Public Trustee Trust Funds  
Notes to the Financial Statements  
For the Year Ended March 31, 2016

**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 3(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, 2016

**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, 2016 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 \$110,807 (2015 - \$112,688). 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:

	2016	2015
Securities	\$ 38,783,051	\$ 39,589,172
Real Estate	6,442,893	7,691,650
Other Assets	<u>370,637</u>	<u>432,234</u>
	<u>\$ 45,596,581</u>	<u>\$ 47,713,056</u>

Public Trustee Trust Funds  
Notes to the Financial Statements  
For the Year Ended March 31, 2016

**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, 2016. 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:

	2016	2015
<b>Balance, beginning of year</b>	\$ 2,974,186	\$ 2,969,406
<b>Add:</b>		
Purchase of securities	19,629	7,532
Interest and investment income	<u>124,106</u>	<u>117,025</u>
	3,117,921	3,093,963
<b>Less:</b>		
Disbursements	(5,871)	(3,820)
Amount to be transferred to the Special Reserve Fund	<u>(124,514)</u>	<u>(115,957)</u>
<b>Balance, end of year</b>	<u>\$ 2,987,536</u>	<u>\$ 2,974,186</u>

The balance of the Common Fund consists of:

Cash	\$ 124,514	\$ 115,957
Investments	2,993,815	2,976,938
Payables (including \$124,514 to the Special Reserve Fund. 2015 - \$115,957)	<u>(130,793)</u>	<u>(118,709)</u>
	<u>\$ 2,987,536</u>	<u>\$ 2,974,186</u>

Public Trustee Trust Funds  
Notes to the Financial Statements  
For the Year Ended March 31, 2016

**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 \$95,018 (2015 - \$100,893).

The continuity of the Special Reserve Fund is as follows:

	2016	2015
<b>Balance, beginning of year</b>	\$ 3,001,938	\$ 2,885,534
<b>Add:</b> Interest income	94,887	95,540
Net amount to be transferred from the Common Fund	<u>124,514</u>	<u>115,957</u>
	3,221,339	3,097,031
<b>Less:</b> Amount transferred to the Province of Nova Scotia	<u>(100,893)</u>	<u>(95,093)</u>
<b>Balance, end of year</b>	<u>\$ 3,120,446</u>	<u>\$ 3,001,938</u>

The balance of the Special Reserve Fund consists of:

Cash	\$ 102,956	\$ 108,712
Receivables	166,130	157,705
Investments	<u>2,851,360</u>	<u>2,735,521</u>
	<u>\$ 3,120,446</u>	<u>\$ 3,001,938</u>

Public Trustee Trust Funds  
Notes to the Financial Statements  
For the Year Ended March 31, 2016

**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, 2016, client investments and Common Fund investments were valued using Level 2 inputs. During the year ended March 31, 2016, 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. Included in fees charged by the Public Trustee is HST totalling \$146,588 (2015 - \$135,075), which the Public Trustee collects on behalf of the Province. These amounts are not included as part of fees used to offset operating costs.

	2016	2015
Department of Justice		\$
Salaries and benefits	\$ 1,867,657	1,971,339
Other operating costs	168,783	245,782
Rent	<u>156,165</u>	<u>156,165</u>
	<u>2,192,605</u>	<u>2,373,286</u>
Less transfers to the Province		
Fees	971,672	896,678
Recoveries	17,276	17,646
Special Reserve Fund Income	<u>100,893</u>	<u>95,093</u>
	<u>1,089,841</u>	<u>1,009,417</u>
Net cost to the Province	<u>\$ 1,102,764</u>	<u>\$ 1,363,869</u>

Fees and recoveries totaling \$988,948 (2015 - \$914,324) represent cash payments to the Province. They are net of HST of \$146,588 (2015 - \$135,075) and net accrued fees of \$46,868 (2015 - \$30,674). The total gross amount of these fees and recoveries is \$1,182,404 (2015 - \$1,080,073) and is disclosed on the Statement of Net and Comprehensive Loss.