Financial Statements of

Nova Scotia Pension Services Corporation

Year ended March 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Nova Scotia Pension Services Corporation

Opinion

We have audited the financial statements of Nova Scotia Pension Services Corporation (the "Entity"), which comprise:

- the balance sheet as at March 31, 2020;
- the statement of earnings and retained earnings for the year then ended;
- the statement of cash flows for the year then ended;
- and notes to the financial statements, including a summary of significant accounting policies;

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2020, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards.

Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' 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 opinion.

Other Information

Management is responsible for the other information. Other information comprises of;

- the information, other than the financial statements and the auditors' report thereon, included in a document entitled "Annual Report"

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Report as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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 Canadian accounting standards for private enterprises, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Auditors' 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 auditors' 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 the 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 auditors' 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 auditors' 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 represents the underlying transactions and events in a manner that achieves fair presentation.

- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
Halifax, Canada
June 24, 2020

Financial Statements of

Nova Scotia Pension Services Corporation

Year ended March 31, 2020

Contents

Financial Statements

Balance Sheet

Year ended March 31, 2020, with comparative information for 2019	2020	2019
Assets		
Current assets:		
Cash	$ 64,926	$ 890,950
Accounts receivable (note 2)	4,448,535	3,614,547
Prepaid expenses	252,301	176,243
	4,765,762	4,681,740
Fixed assets (note 3)	265,211	242,243
Intangible assets (note 3)	10,040	1,252,282
	$ 5,041,013	$ 6,176,265
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	$ 2,387,598	$ 2,074,772
	2,387,598	2,074,772
Loans payable (note 5)	-	1,494,526
Future benefits liability (note 7)	2,653,415	2,606,967
	2,653,415	4,101,493
Shareholders' equity:		
Common shares (note 9)	-	-
	-	-
Commitments (note 11)		
	$ $5,041,013	$ 6,176,265

The accompanying notes are an integral part of these financial statements.

On behalf of the Board:

Approved:

Jan B Barlis Co Chair, Board of Directors

Kevin Tompkins Co-Chair, Board of Directors

Statement of Earnings and Retained Earnings

Year ended March 31, 2020, with comparative information for 2019	2020	2019
Revenue (note 11)	$ 12,490,494	$ 12,799,729
Interest income	-	9,370
Total increase in assets	12,490,494	12,809,099
Expenses:		
Salaries and benefits	7,409,463	7,555,772
Office and administration	1,970,646	1,971,350
Amortization	1,331,865	1,572,958
Professional services	1,264,377	1,222,965
Property rental	514,143	486,054
	12,490,494	12,809,099
Net earnings, being retained earnings, end of year	$ -	$ -

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

Year ended March 31, 2020, with comparative information for 2019	2020	2019
Cash flows from operating activities:		
Net earnings	$ -	$ -
Items not involving cash:		
Amortization	1,331,865	1,572,958
Impairment loss on intangible assets	-	6,655
Change in non-cash operating working capital:		
Increase in accounts receivable	(833,988)	(2,269,322)
(Increase) decrease in prepaid expenses	(76,058)	26,649
Increase in accounts payable and accrued liabilities	312,826	517,934
Increase in future benefits liability	46,448	550,836
Net cash provided by operating activities	781,093	405,710
Cash flows from financing activities:		
Payments on loans payable	(1,494,526)	(1,328,544)
Net cash used in financing activities	(1,494,526)	(1,328,544)
Cash flows from investing activities:		
Purchase of fixed assets	(112,591)	(250,469)
Proceeds from sale of short-term investment	-	1,700,000
Net cash used in investing activities	(112,591)	(34,931)
(Decrease) increase in cash	(826,024)	526,697
Cash, beginning of year	890,950	364,253
Cash, end of year	$ 64,926	$ 890,950

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended March 31, 2020

Nova Scotia Pension Services Corporation ("the Corporation") is a private enterprise, incorporated on April 1, 2013 under the laws of Nova Scotia under *Bill No. 17 (Financial Measures Act (2012)* dated April 12, 2012).

Under the *Nova Scotia Pension Services Corporation Act* (the *"Act"*), the Corporation was devolved from the Nova Scotia Pension Agency, a government agency of the Province of Nova Scotia. The Corporation has issued an equal number of shares to the Teachers' Pension Plan Trustee Inc. and the Public Service Superannuation Plan Trustee Inc. All assets, liabilities, and obligations of the Nova Scotia Pension Agency as at March 31, 2013 were transferred to the Corporation on April 1, 2013.

The purpose of the Corporation is to provide pension administration and pension investment services for the Teachers' Pension Plan and Public Service Superannuation Plan, Ancillary Plans of the Province of Nova Scotia (Sydney Steel Corporation Superannuation Fund, Members' Retiring Allowances Plan and Members' Supplementary Retiring Allowances Plan established under the *Members' Retiring Allowances Act*) and any other pension plan or arrangement that retains the services of the Corporation and is approved by the Board of Directors ("the clients").

The Corporation operates on a cost recovery basis as provided for in the *Act*. The Corporation is a not-for-profit organization and, as such, is exempt from income taxes, provided certain requirements of the *Income Tax Act* are met.

1. Significant accounting policies

a. Basis of presentation

The Corporation's financial statements are prepared in accordance with Part II – Accounting Standards for Private Enterprises of the CPA Canada Handbook.

b. Investments

Investments in equity instruments that are quoted in an active market are accounted for at fair value, with changes in fair value recorded in net income. Transaction costs are accounted for in the original cost of the investments, except for equity investments that are quoted in an active market, the transaction costs are expensed as incurred.

c. Fixed assets

Fixed assets are stated at cost, less accumulated amortization. Amortization is provided using the following methods and annual rates:

Computer hardware	Straight-line	2-4 years
Furniture	Straight-line	5 years
Leasehold improvements	Straight-line	Lease term

The carrying amount of an item of fixed assets is tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the asset's carrying amount is not recoverable and exceeds its fair value.

Significant accounting policies (continued)

d. Intangible assets

Intangible assets represent deferred development costs related to corporate, pension and investment systems. Development activities are recognized as an asset provided they meet the capitalization criteria, which include the Corporation's ability to demonstrate: technical feasibility of completing the intangible asset so that it will be available for use or sale; the Corporation's intention to complete the asset for use; the Corporation's ability to use the asset; the adequacy of the Corporation's resources to complete the development; the Corporation's ability to measure reliably the expenditures during the development; and the Corporation's ability to demonstrate that the asset will generate future economic benefits. Development expenditures that do not meet the capitalization criteria and expenditures for research activities are expensed as incurred. Intangible assets are measured at cost less accumulated amortization and are amortized on a straight-line basis over their useful lives of 5 years.

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

The basis to account for internally generated intangible asset costs is the aggregation of all intangible costs that can be directly identified as being part of the production of the asset. These costs include the salary costs of specific employees based on their time spent while working on project-related tasks.

e. Employee future benefits

The Corporation has an obligation to provide future benefits to its employees in respect of post-retirement health benefits, public service awards and a supplemental employee retirement plan. The benefits are based on years of service and final average salary.

Post-retirement health benefits are available to all retirees whereas the public service award is only available to bargaining unit employees. The supplemental employee retirement plan benefits are based on years of service and salary level – being available only to employees above a defined salary. The Corporation accrues its obligations under the benefit plans as the employees render the services necessary to earn the benefits on an annual basis.

The obligation at the end of the year is determined based on the most recent actuarial valuation report prepared for accounting purposes. The measurement date of the obligation coincides with the Corporation's fiscal year-end. The date of the most recent actuarial valuation of the obligation prepared for accounting purposes is March 31, 2020.

f. Revenue recognition

Revenue is recognized when services are provided and the customer assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

Significant accounting policies (continued)

g. Expense allocation

The net of operating costs, amortization and income are charged to clients based on the clients' usage rate of the services provided by the Corporation. Wherever practical, these costs are matched to the client based on their use of specific services

h. Financial instruments

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost unless management has elected to carry the instruments at fair value. The Corporation has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs. These costs are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Corporation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Corporation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial impairment charge.

i. Related party transactions

Monetary related party transactions and non-monetary related party transactions that have commercial substance are measured at the exchange amount when they are in the normal course of business, except when the transaction is an exchange of a product or property held for sale in the normal course of operations. Where the transaction is not in the normal course of operations, it is measured at the exchange amount when there is a substantive change in the ownership of the item transferred and there is independent evidence of the exchange amount.

All other related party transactions are measured at the carrying amount.

j. Use of estimates

The preparation of the Corporation's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant items subject to such estimates and assumptions include the assumptions used in measuring the future benefits liability. Actual results could differ from those estimates made.

2. Accounts receivable

The following amounts were due to the Corporation as at March 31, 2020:

	2020	2019
Public Service Superannuation Plan	$ 2,383,515	$ 1,902,511
Teachers' Pension Plan	2,058,351	1,703,727
Other	6,669	8,309
	$ 4,448,535	$ 3,614,547

3. Fixed and intangible assets

2020	Cost	Accumulated amortization	Net book value
Fixed assets:			
Computer hardware	$ 401,959	$ (235,967)	$ 165,992
Furniture	98,734	(67,365)	31,369
Leasehold Improvements	94,540	(26,690)	67,850
	595,233	(330,022)	265,211
Intangible assets:			
Systems	6,607,133	(6,597,093)	10,040
	6,607,133	(6,597,093)	10,040
Total	$ 7,202,366	$ (6,927,115)	$ 275,251

2019	Cost	Accumulated amortization	Net book value
Fixed assets:			
Computer hardware	$ 372,251	$ (249,692)	$ 122,559
Furniture	98,734	(52,461)	46,273
Leasehold Improvements	84,664	(11,253)	73,411
	555,649	(313,406)	242,243
Intangible assets:			
Systems	6,607,133	(5,354,851)	1,252,282
	6,607,133	(5,354,851)	1,252,282
Total	$ 7,162,782	$ (5,668,257)	$ 1,494,525

4. Accounts payable and accrued liabilities

	2020	2019
Accounts payable and accrued liabilities	$ 2,164,055	$ 1,729,504
Harmonized sales tax payable	223,543	345,268
	$ 2,387,598	$ 2,074,772

5. Loans payable

As capital costs are incurred, the Corporation calls for a loan from the Teachers' Pension Plan and Public Service Superannuation Plan. The amount required to cover capitalized costs is funded equally by each plan unless agreed otherwise by the plan making the loan to the Corporation. Loans are long-term in nature and do not bear interest.

As at March 31, 2020, the loans payable was $nil.

	2020	2019
Due to Teachers' Pension Plan	$ -	$ 747,263
Due to Public Service Superannuation Plan	-	747,263
	$ -	$ 1,494,526

6. Related party transactions

a. Teachers' Pension Plan Trustee Inc. as trustee of Teachers' Pension Plan

The Corporation entered into an agreement with the Teachers' Pension Plan Trustee Inc. on April 1, 2013 to provide pension and investment services to the Teachers' Pension Plan. The amount charged to the Teachers' Pension Plan for the year ended March 31, 2020 was $5,481,668 (2019 - $5,761,745) (note 10). As at March 31, 2020, the Corporation has a receivable of $2,058,351 (2019 - $1,703,727) from the Teachers' Pension Plan for services provided (note 2).

The Teachers' Pension Plan loans the Corporation funds to fund capital assets for the betterment of servicing the clients of the Corporation. As at March 31, 2020, the loan payable due to the Teachers' Pension Plan was $nil (2019 - $747,263) (note 5).

Related party transactions (continued)

b. Public Service Superannuation Plan Trustee Inc. as trustee of Public Service Superannuation Plan

The Corporation entered into an agreement with the Public Service Superannuation Plan Trustee Inc. on April 1, 2013 to provide pension and investment services to the Public Service Superannuation Plan. The amount charged to the Public Service Superannuation Plan for the year ended March 31, 2020 was $6,744,348 (2019 - $6,803,929) (note 10). As at March 31, 2020, the Corporation has a receivable of $2,383,515 (2019 - $1,902,511) from the Public Service Superannuation Plan for services provided (note 2).

The Public Service Superannuation Plan loans the Corporation funds to fund capital assets for the betterment of servicing the clients of the Corporation. As at March 31, 2020, the loan payable due to Public Service Superannuation Plan was $nil (2019 - $747,263) (note 5).

Employees of the Corporation are members of the Public Service Superannuation Plan. During the year, the Corporation made contributions of $492,297 (2019 - $457,606) to the plan (note 8).

c. Premises

The Corporation bases its operations in Purdy's Wharf, a building partially owned by both TPP Investments I Inc., a related subsidiary of the Teachers' Pension Plan, and PSS Investments I Inc., a related subsidiary of the Public Service Superannuation Plan. Employees of the Corporation serve as directors of both TPP Investments I Inc. and PSS Investments I Inc. The rent paid to the landlord for the year was $514,143 (2019 - $486,054).

d. Province of Nova Scotia

During the year, the Province of Nova Scotia provided services to the Corporation and its clients. The significant related party purchases from the Province of Nova Scotia were as follows:

	2020	2019
Payroll services	$ 225,000	$ 225,000
Payroll system enhancements	4,986	-
Other	442	3,445
	$ 230,428	$ 228,445

The amount due to the Province of Nova Scotia as at March 31, 2020 for services provided to the Corporation was $225,127 (2019 – $ nil). The amount due to the Corporation for services provided to the Province of Nova Scotia as at March 31, 2020 was $3,354 (2019 – $ nil).

The Province of Nova Scotia, the Corporation's payroll service provider, pays the Corporation's staff and recovers the gross payroll amount from the Corporation. The amount due to the Province of Nova Scotia as at March 31, 2020 for recovery was $498,953 (2019 – $nil).

In all cases the measurement basis of related party transactions has been the value of cash received or paid between parties and the value of invoices raised for services between parties.

7. Future benefits liability

Upon retirement, employees of the Corporation will receive post-retirement health benefits, and where eligible, the Public Service Award and benefits under a Supplemental Employee Retirement Plan. The future benefits liability of the Corporation was calculated as at March 31, 2019 and extrapolated to March 31, 2020, under Section 3463 of Part III of the CPA Canada Handbook – Accounting by Eckler Limited. In determining liabilities under CPA 3463, the method required is the projected unit credit method prorated on services (i.e. benefits are projected with salary increases to retirement and then prorated based on service).

	2020	2019
Discount rate	**3.30% per annum**	3.30% per annum
Salary	**2.50% per annum for 2 years, 2.50% plus merit per annum thereafter, and 2.00% per annum for employees under 30 years of age**	2.50% per annum for 2 years, 2.50% plus merit per annum thereafter, and 2.00% per annum for employees under 30 years of age
Retirement age	**• 10% at age 59 • 20% at age 60 • 10% at age 61-64 • 50% at age 65-69 • 100% at age 70 However, 20% each year on or after earliest unreduced retirement date, if greater; plus an additional 40% at 35 years of service**	• 10% at age 59 • 20% at age 60 • 10% at age 61-64 • 50% at age 65-69 • 100% at age 70 However, 20% each year on or after earliest unreduced retirement date, if greater; plus an additional 40% at 35 years of service
Mortality	**120% of Canadian Public Sector Mortality Table with future mortality improvements in accordance with Scale B**	120% of Canadian Public Sector Mortality Table with future mortality improvements in accordance with Scale B
Income Tax Act maximum pension	**$3,026 per year of service in 2020, increasing at 2.50% per annum after 2020**	$3,026 per year of service in 2019, increasing at 2.50% per annum after 2019

Future benefits liability (continued)

The future benefits liability as at March 31, 2020 is calculated as follows:

	2020	2019
Supplemental Employee Retirement Plan	$ 1,509,008	$ 1,415,532
Post-retirement health benefits	1,077,523	995,495
Public Service Award	66,884	195,940
	$ 2,653,415	$ 2,606,967

8. Employee pension plan

Permanent employees of the Corporation participate in the Public Service Superannuation Plan (the "Plan"), a contributory defined benefit pension plan, which provides pension benefits based on length of service and earnings.

Contributions to the Plan are required by both the employees and the employer. The Corporation's contributions range from 8.4% to 10.9% of an employee's salary. Total employer contributions for 2020 were $492,297 (2019 - $457,606) and are recognized in salaries and benefits expense in the financial statements.

The Corporation is not responsible for any under-funded liability, nor does the Corporation have access to any surplus that may arise in this Plan.

9. Share capital

The share capital of the Corporation is 100,000 common shares of one class without par value. The shares do not carry a dividend; they are not redeemable and are not convertible. On April 1, 2013, 100 shares were issued, 50 to the Teachers' Pension Plan Trustee Inc. and 50 to Public Service Superannuation Plan Trustee Inc. at $nil value.

10. Revenue

Revenue is as follows:

		2020		2019
Public Service Superannuation Plan	$	6,744,348	$	6,803,929
Teachers' Pension Plan		5,481,668		5,761,745
Members' Retiring Allowances Act Plans		160,013		122,400
Sydney Steel Corporation Superannuation Fund		104,040		102,000
Other		425		9,655
	$	12,490,494	$	12,799,729

11. Commitments

As at March 31, 2020, the Corporation was contractually obligated under various operating and occupancy leases. Future minimum annual lease payments over the next five years are as follows:

2021	$	1,355,209
2022		1,357,632
2023		1,279,002
2024		1,066,098
2025		897,259

Contact Pension Services Corp. at:

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