Financial Statements of

Nova Scotia Pension Services Corporation

Year ended March 31, 2022

Contents

Financial Statements

KPMG

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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, 2022;
- 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, 2022, 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.

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 represent 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

Halifax, Canada

June 22, 2022

Balance Sheet

Year ended March 31, 2022, with comparative information for 2021	2022	2021
Assets		
Current assets:		
Cash	**$ 137,108**	$ 575,636
Accounts receivable (note 2)	**3,229,458**	4,708,712
Prepaid expenses	**335,486**	289,047
	3,702,052	5,573,395
Fixed assets (note 3)	**2,597,166**	205,327
Intangible assets (note 3)	**-**	-
	$ 6,299,218	$ 5,778,722
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 4)	**$ 2,671,943**	$ 2,956,881
	2,671,943	2,956,881
Lease inducement (note 7)	**992,817**	-
Future benefits liability (note 6)	**2,634,458**	2,821,841
	3,627,275	2,821,841
Shareholders' equity:		
Common shares (note 9)	**-**	-
	-	-
Commitments (note 11)		
	$ 6,299,218	$ 5,778,722

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

On behalf of the Board:

Keiren Tompkins, Co-Chair

John B. Carter, Co-Chair

Statement of Earnings and Retained Earnings

Year ended March 31, 2022, with comparative information for 2021	2022	2021
Revenue (note 10)	**12,876,233**	12,315,657
Total increase in assets	**12,876,233**	12,315,657
Expenses:		
Salaries and benefits	**8,240,997**	8,061,398
Office and administration	**2,455,274**	1,867,718
Professional services	**1,329,258**	1,723,758
Office lease	**685,890**	528,720
Amortization	**126,132**	134,063
Loss on disposal of fixed assets	**38,682**	-
	12,876,233	12,315,657
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, 2022, with comparative information for 2021	2022	2021
Cash flows from operating activities:		
Net earnings	$ -	$ -
Items not involving cash:		
Amortization	126,132	134,063
Loss on disposal of fixed assets	38,682	-
Lease inducement	992,817	-
Change in non-cash operating working capital:		
Decrease (increase) in accounts receivable	1,479,254	(260,177)
Increase in prepaid expenses	(46,439)	(36,746)
(Decrease) increase in accounts payable and accrued liabilities	(542,939)	569,283
(Decrease) increase in future benefits liability	(187,383)	168,426
Net cash provided by operating activities	1,860,124	574,849
Cash flows from investing activities:		
Purchase of fixed assets	(2,298,652)	(64,139)
Net cash used in investing activities	(2,298,652)	(64,139)
(Decrease) increase in cash	(438,528)	510,710
Cash, beginning of year	575,636	64,926
Cash, end of year	$ 137,108	$ 575,636

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended March 31, 2022

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 Public Service Superannuation Plan and Teachers' Pension 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. 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	2-5 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)

c. 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.

d. 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, 2022.

e. 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)

f. 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.

g. 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.

h. 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.

i. 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, 2022:

	2022	2021
Public Service Superannuation Plan	**$ 1,370,133**	$ 2,715,697
Teachers' Pension Plan	**856,468**	1,981,191
Other	**1,002,857**	11,824
	$ 3,229,458	$ 4,708,712

3. Fixed and intangible assets

2022	Cost	Accumulated amortization	Net book value
Fixed assets:			
Computer hardware	**$ 624,117**	**$ (348,742)**	**$ 275,375**
Furniture	**479,962**	**(35,566)**	**444,396**
Leasehold Improvements	**1,893,172**	**(15,777)**	**1,877,395**
	2,997,251	**(400,085)**	**2,597,166**
Intangible assets:			
Systems	**6,236,511**	**(6,236,511)**	**-**
	6,236,511	**(6,236,511)**	**-**
Total	**$ 9,233,762**	**$ (6,636,596)**	**$ 2,597,166**

2021	Cost	Accumulated amortization	Net book value
Fixed assets:			
Computer hardware	$ 446,265	$ (321,555)	$ 124,710
Furniture	107,515	(80,291)	27,224
Leasehold Improvements	105,592	(52,199)	53,393
	659,372	(454,045)	205,327
Intangible assets:			
Systems	6,607,133	(6,607,133)	-
	6,607,133	(6,607,133)	-
Total	$ 7,266,505	$ (7,061,178)	$ 205,327

For the year ended March 31, 2022, the Corporation has excluded the following non-cash investing activities from the Statement of Cash Flows:

- Additions to fixed assets of $258,001 (2021 - $nil) which remain unpaid at year-end.

4. Accounts payable and accrued liabilities

	2022	2021
Accounts payable and accrued liabilities	**$ 2,523,916**	$ 2,686,635
Harmonized sales tax payable	**148,027**	270,246
	$ 2,671,943	$ 2,956,881

5. Related party transactions

a. 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, 2022, was $7,033,146 (2021 - $6,867,050) (note 10). As at March 31, 2022, the Corporation has a receivable of $1,370,133 (2021 - $2,715,697) from the Public Service Superannuation Plan for services provided (note 2).

Employees of the Corporation are members of the Public Service Superannuation Plan. During the year, the Corporation made contributions of $571,559 (2021 - $530,225) to the plan (note 8).

b. 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, 2022, was $5,659,487 (2021 - $5,264,634) (note 10). As at March 31, 2022, the Corporation has a receivable of $856,468 (2021 - $1,981,191) from the Teachers' Pension Plan for services provided (note 2).

c. Premises

The Corporation bases its operations in Purdy's Wharf, Tower II (2021 – Purdy's Landing). The building is 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 lease amount paid to the landlord for the year was $685,890 (2021 - $528,720).

At March 31, 2022, the landlord owes the Corporation $1,001,160 (2021 - $nil) relating to a one-time contribution towards the initial leasehold improvements at the new office location. This amount is recorded in accounts receivable.

Related party transactions (continued)

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:

		2022		2021
Payroll services	**$**	**225,000**	$	225,000
Other		**12,665**		761
	$	**237,665**	$	225,761

The amount due to the Province of Nova Scotia as at March 31, 2022 for services provided to the Corporation was $225,000 (2021 – $225,493). The amount due to the Corporation for services provided to the Province of Nova Scotia as at March 31, 2022 was $1,608 (2021 – $1,006).

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, 2022 for recovery was $723,949 (2021 – $548,606).

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.

6. 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, 2022, 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).

	2022	2021
Discount rate	**4.00% per annum**	3.30% per annum
Salary	**2.75% per annum plus merit (under age 30 - 2% per annum, age 30 to 45 - 1.5% to 0.0% per annum)**	2.50% per annum plus merit (under age 30 - 2% per annum, age 30 to 45 - 1.5% to 0.0% per annum)
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	**$3,420 per year of service in 2022, increasing at 2.75% per annum after 2022**	$3,026 per year of service in 2021, increasing at 2.50% per annum after 2021

Future benefits liability (continued)

The future benefits liability as at March 31, 2022 is calculated as follows:

	2022	2021
Supplemental Employee Retirement Plan	**$ 1,654,648**	$ 1,607,743
Post-retirement health benefits	**941,366**	1,163,813
Public Service Award	**38,444**	50,285
	$ 2,634,458	$ 2,821,841

7. Lease inducement

During the year, lease extension and amending agreements were signed by the Corporation and its landlord, reflecting a change in office location from Purdy's Landing to Purdy's Wharf, Tower II, effective March 1, 2022 for a 10-year term. The landlord will pay the Corporation a one-time contribution towards the final cost of the initial leasehold improvements for the new office location. The amount due to the Corporation for the lease inducement as at March 31, 2022 is $1,001,160. The lease inducement is accounted for as a reduction of the monthly office lease expense on a straight-line basis over the lease term. At March 31, 2022, the remaining lease inducement is $992,817 which is recorded as a liability on the balance sheet.

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.

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 2022 were $571,559 (2021 - $530,225) 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:

	2022	2021
Public Service Superannuation Plan	$ 7,033,146	$ 6,867,050
Teachers' Pension Plan	5,659,487	5,264,634
Members' Retiring Allowances Act Plans	102,000	100,000
Sydney Steel Corporation Superannuation Fund	81,600	80,000
Other	-	3,973
	$ 12,876,233	$ 12,315,657

11. Commitments

As at March 31, 2022, the Corporation was contractually obligated under various operating and occupancy leases. Future minimum annual lease payments over the next five years are as follows:

2023	1,408,509
2024	1,284,190
2025	1,308,866
2026	1,233,169
2027	709,195

pension

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