



# **Public Accounts**

**VOLUME 1—FINANCIAL STATEMENTS  
for the fiscal year ended March 31, 2005**

**The Honourable Peter G. Christie,  
Minister of Finance**

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# Public Accounts

## VOLUME 1—FINANCIAL STATEMENTS for the fiscal year ended March 31, 2005

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## Message from the Minister

I am pleased to present the Province of Nova Scotia's Public Accounts for the fiscal year ended March 31, 2005.

Once again, Nova Scotia ended the year in a surplus position, with revenues exceeding expenses by \$165.3 million. This is the fourth year in a row that the Province of Nova Scotia has brought in a balanced budget and recorded a surplus in its year-end financial statements.

Nova Scotia also reduced the level of net direct debt in 2004–05, three years earlier than anticipated in our debt reduction plan. As at March 31, 2005, net direct debt was \$12.3 billion, \$19.4 million lower than the prior year. Under the province's legislated debt reduction plan, we expect to see the net direct debt drop again in 2007–08.

Revenues were considerably higher than budgeted in the 2004–05 Estimates, so government was in a position to make additional strategic investments during the year in various departments. We were also able to designate \$60 million of the 2004–05 surplus for much-needed capital infrastructure improvements in 2005–06 and 2006–07.

Nova Scotia's economy performed well overall in 2004–05, with growth of 1.3 per cent and unemployment dropping to 8.8 per cent.

Positive financial and economic trends in Nova Scotia have been noted by bond-rating agencies, which upgraded the Province's credit rating and outlook.

We have made a number of editorial improvements to the Public Accounts document this year to make it easier for our stakeholders to understand the financial statements and related information. The content changes are consistent with the recommendations of the Public Sector Accounting Board.

The March 31, 2005 financial statements are prepared in accordance with generally accepted accounting principles (GAAP) and have received an unqualified audit opinion from the Auditor General.

We have worked hard to bring financial stability to provincial finances over the last few years, and our continued progress is evident in the financial statements for 2004–05.



The Honourable Peter Christie  
Minister of Finance



**Public Accounts Volume 1 — Financial Statements**

# Introduction

In accordance with the Provincial Finance Act, the Minister of Finance for the Province of Nova Scotia produces financial statements annually to report on the operating results and financial condition of the Province. These are general-purpose financial statements, meant to meet the needs of a variety of users, and are presented as the last section of this publication. They are prepared on a consolidated basis, meaning that they include the financial information for the departments of government as well as Crown corporations, boards, and other entities controlled by the government.

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP) for the public sector. For purposes of the Province's financial statements, this means the accounting recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by other CICA and International Federation of Accountants accounting standards or pronouncements.

The 2004-05 *Public Accounts Volume I* commences with the Financial Statement Discussion and Analysis (FSD&A) section, which is an upgraded version of the traditional Financial Highlights provided in past years. The expansion of this section represents the government's response to new reporting practices recommended by PSAB and its continued commitment to GAAP-compliant financial reporting. The FSD&A provides an overview and highlights of the consolidated financial statements and activities of the Consolidated Fund, as well as a brief discussion of the Nova Scotia economy.

The selected highlights of the Consolidated Fund include information on revenues, net expenses, tangible capital assets, and additional appropriations. The Consolidated Fund is the level at which the annual estimates are primarily focused. Therefore, financial highlights of this Fund continue to be relevant to year-end financial reporting and are included in the *Public Accounts Volume I*. The Consolidated Fund comprises all departments and public service units of the Nova Scotia provincial government, but excludes other governmental units and government business enterprises controlled by the Province.

Two additional separate publications, Volume II and the Supplement, are included in the Public Accounts suite of annual financial reports. Volume II consists of reproductions of the financial statements of various agencies, boards, governmental units, government business enterprises, and trust funds. The Supplement is produced in accordance with the Provincial Finance Act as a record of the monies paid directly from the Consolidated Fund in the fiscal year for salaries, travel, grants, and expenses.



**Public Accounts Volume 1 — Financial Statements**

# Financial Statement Discussion and Analysis

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## Financial Highlights of the Consolidated Financial Statements

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These financial highlights are based on information from the consolidated financial statements for 2004–05, as presented on pages 45–87 of this publication.

### STATEMENT OF OPERATIONS

The Statement of Operations shows the Province's revenues and expenses. The provincial surplus is the net financial result of the year's operations.

In accordance with the Provincial Finance Act, the Province is required each year to ensure that expenses do not exceed revenues. Under generally accepted accounting principles (GAAP), a year-end surplus reduces net direct debt. The change in non-financial assets also impacts net direct debt.

### Provincial Surplus

In 2004–05, the provincial surplus was \$165.3 million, which was \$127.2 million higher than the year before and \$153.2 million higher than the budget.

During the year, numerous unplanned events and decisions affected expected (budgeted) revenues and expenses. As shown below, both revenues and expenses have increased significantly from the prior year to increase the Provincial Surplus to its year end level.





## Public Accounts Volume 1 — Financial Statements

Provincial Surplus (\$ thousands)	Actual 2004-05	Actual 2003-04 (as restated)	Variance Increase (Decrease)
Total Revenue	6,944,173	6,389,763	554,410
Total Expenses	(6,778,880)	(6,360,416)	(418,464)
Unusual Items	—	8,734	(8,734)
<b>Provincial Surplus</b>	<b>165,293</b>	<b>38,081</b>	<b>127,212</b>

### Revenue

The sources of revenue have remained reasonably consistent with the prior year. Provincial taxation and federal payments make up 79 per cent of total revenue (76 per cent in 2003-04). The remaining balance is earned from a variety of sources and controlled entities.

Revenue (\$ thousands)	Actual 2004-05	Percentage of total	Actual 2003-04	Percentage of total	Variance Increase (Decrease)
Income Taxes	1,791,325	26%	1,602,375	25%	188,950
Sales Taxes	1,472,773	21%	1,401,456	22%	71,317
Federal Equalization	1,321,774	19%	1,114,487	17%	207,287
Other Federal Contributions	886,943	13%	771,346	12%	115,597
Other Sources	1,121,851	16%	1,166,757	19%	(44,906)
Total Revenue from Governmental Units	6,594,666	95%	6,056,421	95%	538,245
Net Income from Government Business Enterprises	349,507	5%	333,342	5%	16,165
<b>Total Revenue</b>	<b>6,944,173</b>	<b>100%</b>	<b>6,389,763</b>	<b>100%</b>	<b>554,410</b>

## Net Expenses

Net expenses consist of gross expenses incurred to provide services, less

1. certain fees charged
2. cost recoveries and certain federal transfers directly related to those expenses and services.

The sources of net expenses have remained reasonably consistent with the prior year. The health and the education sectors make up 60 per cent of total expenses (60 per cent in 2003–04).

Net Expenses (\$ thousands)	Actual 2004–05	Percentage of total	Actual 2003–04 (as restated)	Percentage of total	Variance Increase (Decrease)
Health	2,543,560	38%	2,357,196	37%	186,364
Education and Universities	1,513,366	22%	1,436,348	23%	77,018
Community Services	724,678	11%	677,648	11%	47,030
Transportation and Public Works	247,563	4%	229,708	4%	17,855
Debt Servicing Costs	1,067,090	16%	1,072,890	17%	(5,800)
Other Expenses	682,623	9%	586,626	8%	95,997
<b>Total Net Expenses</b>	<b>6,778,880</b>	<b>100%</b>	<b>6,360,416</b>	<b>100%</b>	<b>418,464</b>

## STATEMENT OF FINANCIAL POSITION

The Statement of Financial Position reports the balances of financial assets, financial liabilities, and non-financial assets. It discloses net direct debt as a key measure of the Province's financial position and accumulated deficits as a secondary measure.

### Net Direct Debt

Net direct debt is the difference between the Province's financial liabilities and financial assets. It represents the amount of liabilities to be funded from future revenues and taxation. As at March 31, 2005, net direct debt was \$12.3 billion, \$19.4 million lower than the prior year.



## Accumulated Deficits

The accumulated deficits represent the difference between the Province's financial liabilities and both the financial and non-financial assets. Further, it is the sum of all surpluses and deficits incurred to date, calculated according to current accounting policies. The accumulated deficits of \$9.1 billion at the end of 2004–05 were slightly reduced from \$9.2 billion at the end of 2003–04.

### Net Direct Debt and Accumulated Deficits

(\$ thousands)	Actual 2004–05	Actual 2003–04 (as restated)	Variance
Financial Assets	2,021,687	1,967,150	54,537
Financial Liabilities	(14,330,094)	(14,294,974)	(35,120)
Net Direct Debt	(12,308,407)	(12,327,824)	19,417
Non-Financial Assets	3,241,478	3,095,602	145,876
<b>Accumulated Deficits</b>	<b>(9,066,929)</b>	<b>(9,232,222)</b>	<b>165,293</b>

## Financial Assets

Financial assets consist of assets available to discharge existing liabilities or to finance future operations. Financial assets have remained reasonably consistent with the prior year.

Financial Assets (\$ thousands)	Actual 2004–05	Percentage of total	Actual 2003–04 (as restated)	Percentage of total	Variance Increase (Decrease)
Cash and Short-term Investments	402,020	20%	538,972	27%	(136,952)
Accounts Receivable and Advances	548,713	27%	462,401	24%	86,312
Loans Receivable	1,031,834	51%	920,186	47%	111,648
Other Financial Assets	39,120	2%	45,591	2%	(6,471)
<b>Total Financial Assets</b>	<b>2,021,687</b>	<b>100%</b>	<b>1,967,150</b>	<b>100%</b>	<b>54,537</b>

## Financial Statement Discussion and Analysis

### Financial Liabilities

Financial liabilities consist of debts or monetary obligations owing at March 31 to be paid in the future with cash or other assets. Total composition of the financial liabilities have remained reasonably consistent with the prior year. An \$878.5 million decline in unmatured debt of governmental units was offset by a \$463.1 million increase in bank advances and short-term borrowings. The balances in these two categories pertained primarily to the consolidated fund.

#### Financial Liabilities (\$ thousands)

	Actual 2004-05	Percentage of total	Actual 2003-04 (as restated)	Percentage of total	Variance Increase (Decrease)
Bank Advances and Short-term Borrowings	1,048,388	7%	585,312	4%	463,076
Accounts Payable and Accrued Liabilities	1,349,024	9%	1,192,323	8%	156,701
Unmatured Debt of Governmental Units	10,209,570	71%	11,088,046	78%	(878,476)
Federal Equalization Payable Loan	120,322	1%	—	—	120,322
Pension, Retirement and Other Obligations	1,361,698	10%	1,311,663	9%	50,035
Other Liabilities	241,092	2%	117,630	1%	123,462
<b>Total Financial Liabilities</b>	<b>14,330,094</b>	<b>100%</b>	<b>14,294,974</b>	<b>100%</b>	<b>35,120</b>

### Non-Financial Assets

Non-financial assets form part of the province's financial position, as assets to be used during the provision of services in the future. Non-financial assets consist primarily of tangible capital assets.



## Public Accounts Volume 1 — Financial Statements

Non-Financial Assets (\$ thousands)	Actual 2004–05	Percentage of total	Actual 2003–04 (as restated)	Percentage of total	Variance Increase (Decrease)
Tangible Capital Assets	3,206,830	98%	3,064,028	98%	142,802
Inventories of Supplies	19,766	1%	17,746	1%	2,020
Prepaid Expenses	14,882	1%	13,828	1%	1,054
<b>Total Non-Financial Assets</b>	<b>3,241,478</b>	<b>100%</b>	<b>3,095,602</b>	<b>100%</b>	<b>145,876</b>

### Tangible Capital Assets

Investment in tangible capital assets of the various asset classes, and in total, has remained reasonably consistent with the prior year. Current year acquisitions totaled \$343.1 million (\$330.5 million in 2003–04). The Buildings and Land Improvements asset class includes a large portion of capital assets pertaining to provincially owned buildings, schools, and hospitals. The Assets under Capital Lease asset class includes a significant number of leased schools, the correctional forensic facility, the ambulance fleet, as well as a large network of communication infrastructure.

### Tangible Capital Assets (Net Book Value)

(\$ thousands)	Actual 2004–05	Percentage of total	Actual 2003–04	Percentage of total	Variance Increase (Decrease)
Land	539,433	17%	533,666	17%	5,767
Buildings and Land Improvements	1,353,555	42%	1,258,025	41%	95,530
Assets Under Capital Leases	368,602	11%	393,370	13%	(24,768)
Roads, Bridges and Highways	350,698	11%	280,179	9%	70,519
Machinery, Computers and Equipment	222,699	7%	214,241	7%	8,458
Other	371,843	12%	384,547	13%	(12,704)
<b>Total Tangible Capital Assets</b>	<b>3,206,830</b>	<b>100%</b>	<b>3,064,028</b>	<b>100%</b>	<b>142,802</b>

## **STATEMENT OF NET DIRECT DEBT**

Details of the changes in net direct debt are reported on this statement. In 2004–05, net direct debt decreased by \$19.4 million. The \$165.3 million provincial surplus more than offset the \$142.8 million net investment in tangible capital assets, which resulted in a net decrease in net direct debt.

## **STATEMENT OF CASH FLOW**

The Province records its transactions on an accrual basis in accordance with generally accepted accounting principles (GAAP), the timing of which may vary from when actual cash is paid or received. This statement details the increase or decrease in the Province's net cash position in terms of sources and uses of cash identified within the following activities: operating, investing, capital, and financing.

During 2004–05, the Province's cash position decreased by \$137.0 million. A cash inflow of \$961.7 million was received from debentures issued and sinking fund withdrawals. Additionally, bank advances and short-term borrowings increased \$463.1 million. These inflows were more than offset by \$1.5 billion of debt repayment and \$343.1 million in acquisitions of tangible capital assets during the current year.

### **Cash Flow By Category** (\$ thousands)

	<b>Actual 2004–05</b>	<b>Actual 2003–04 (as restated)</b>	<b>Variance Increase (Decrease)</b>
Operating	777,668	283,563	614,427
Investing	(104,802)	(29,347)	(75,455)
Capital	(338,258)	(329,185)	(9,073)
Financing	(471,560)	347,828	(939,710)
<b>Net Inflows (Outflows) of Cash</b>	<b>(136,952)</b>	<b>272,859</b>	<b>(409,811)</b>

## **RISK**

The Province is subject to various forms of risk inherent in the nature of certain financial statement elements and financial markets. Exposure to risk from the use of accounting and other estimates in recording certain transactions is discussed in Note 1(d) of the consolidated financial statements. Financial risks are discussed in the section called Debt Review of the Consolidated Fund.



## Selected Highlights of the Consolidated Fund

### BUDGETARY SUMMARY

(\$ thousands)

ACTUAL 2003-04 (as restated)		Estimate 2004-05 (as restated)	Actual 2004-05
	<b>Consolidated Fund</b>		
5,355,889	Ordinary Revenue	5,574,172	5,857,665
4,797,165	Less: Net Program Expenses	5,077,630	5,192,710
(12,346)	Pension Valuation Adjustment	(9,400)	6,337
856,085	Net Debt-Servicing Costs	871,821	890,328
5,640,904		5,940,051	6,089,375
(285,015)		(365,879)	(231,710)
	<b>Consolidation and Accounting Adjustments for the Consolidated Fund and Governmental Units</b>		
2,147,768	Consolidated Fund Consolidation Adjustments	36,000	2,309,970
(1,327,579)	Health and Hospital Boards Operations	1,500	(1,390,144)
(773,897)	School Boards Operations	—	(798,832)
—	Special Purpose Funds	—	5,305
(65,272)	Other Organizations	(1,605)	(78,803)
(18,980)		35,895	47,496
	<b>Net Income from Government Business Enterprises</b>		
158,491	Nova Scotia Gaming Corporation	152,400	170,031
166,752	Nova Scotia Liquor Corporation	181,715	170,034
8,099	Other Enterprises	8,000	9,442
333,342		342,115	349,507
29,347	<b>Provincial Surplus before Unusual Items</b>	12,131	165,293
	<b>Unusual Items</b>		
8,734	Nova Scotia Resources Limited	—	—
38,081	<b>Provincial Surplus</b>	12,131	165,293

#### Notes on Restated Figures

The accounting policies used to prepare the 2004-05 consolidated financial statements are the same as those used in the previous year except as noted in Note 2 of the Consolidated Financial Statements. Also, short-term interest revenue of \$8.8 million for 2003-04 has been reclassified from net debt servicing costs to interest revenue to conform with the format used for the 2004-05 estimate and 2004-05 actual. The 2003-04 actuals have been restated for these changes.

Due to the timing of certain accounting changes made in 2004-05, the 2004-05 estimates did not include the impact of those accounting changes. To ensure comparability between the 2004-05 estimates and the 2004-05 actuals, it would be necessary to make the following adjustments to the estimates:

- Increase the gross debt servicing costs by \$1.9 million and decrease the net program expenses by \$6.4 million to account for the accounting changes for the Long-Term Disability Plan.
- Increase the gross debt-servicing costs by \$0.1 million and increase the pension valuation adjustment by \$0.1 million for retirement benefits of the Nova Scotia Legal Aid Commission.
- In October 2004, based on the annual review of discount rate assumptions for the funded pension plans, a change was deemed to be necessary for the 2004-05 actuarial valuations. The 2004-05 estimates, if prepared using the new assumption, would have included increased debt-servicing costs of \$22.7 million. Disclosure of this impact is recommended due to its size. Changes in assumptions are applied prospectively, so no changes to the 2003-04 actual have been made or calculated. In relation to the other unfunded retirement benefits, the information on the impact of changing the discount rate is not included in the above amounts.

To conform with presentation of the 2003-04 actuals and 2004-05 actuals, the 2004-05 estimates have been restated from the original format for the following:

- Casino win tax of \$16.6 million, which was formerly budgeted as part of net revenues from the Nova Scotia Gaming Corporation, has been moved to ordinary revenue from other provincial sources. Casino win tax is collected for the Province by the Nova Scotia Gaming Corporation for the Consolidated Fund.
- The \$10.0 million budget for the Province's debt reduction plan has been removed from the estimates to comply with the new presentation of the new debt reduction plan approved by the government. The impacts of this change are an increase in net debt-servicing costs and a reduction in the Debt Retirement line items.

## Selected Highlights of the Consolidated Fund

### REVENUES – CONSOLIDATED FUND

In total, Revenue for fiscal 2004–05 increased by \$283.5 million or 5.1 per cent over the original budget. The major portion of the increase, \$184.2 million, resulted from increased equalization payments of \$118.9 million, \$65.3 million from corporate income taxes, and \$61 million from offshore licences forfeitures.

The listing below contains the current and prior year actuals, the current year estimate and the current year estimate versus actual variance. The analysis that follows this chart includes explanations, by revenue source, for the most significant variances.

REVENUES (\$ thousands)	Actual 2003–04 (as restated)	Estimate 2004–05 (as restated)	Actual 2004–05	Estimate vs Actual Variance Increase (Decrease)
<b>Provincial Sources</b>				
Personal Income Tax	1,350,071	1,465,695	1,462,250	(3,445)
Corporate Income Tax	232,710	263,753	329,075	65,322
Harmonized Sales Tax	975,204	1,015,336	1,031,066	15,730
Tobacco Tax	161,715	180,217	178,285	(1,932)
Motive Fuel Taxes	249,900	255,872	249,246	(6,626)
Interest Revenues	69,264	64,898	70,513	5,615
Registry of Motor Vehicles	77,546	80,381	86,688	6,307
Royalties—Petroleum	24,083	20,000	28,202	8,202
Offshore Licences Forfeitures	1,244	—	61,000	61,000
Other Provincial Sources	237,989	245,275	249,654	4,379
Prior Years' Adjustments— Provincial Sources	145,504	—	(63,278)	(63,278)
<b>Total—Provincial Sources</b>	<b>3,525,230</b>	<b>3,591,427</b>	<b>3,682,701</b>	<b>91,274</b>
<b>Federal Sources</b>				
Equalization Payments	1,114,487	1,202,851	1,321,774	118,923
Canada Health and Social Transfer	686,853	703,998	—	(703,998)
Canada Health Transfer	—	—	484,528	484,528
Canada Social Transfer	—	—	244,867	244,867
Health Reform Fund	29,611	44,109	44,035	(74)
Wait Times Reduction Funding	—	—	18,348	18,348
Offshore Offset	—	29,457	34,000	4,543
Statutory Subsidies	2,330	2,330	2,319	(11)
Prior Years' Adjustments— Federal Sources	(2,623)	—	25,093	25,093
<b>Total—Federal Sources</b>	<b>1,830,658</b>	<b>1,982,745</b>	<b>2,174,964</b>	<b>192,219</b>
<b>Total—Revenues</b>	<b>5,355,888</b>	<b>5,574,172</b>	<b>5,857,665</b>	<b>283,493</b>

#### Notes on Restated Figures

Short-term interest revenue of \$8.8 million for 2003–04 has been reclassified from net debt servicing costs to interest revenue to conform with the format used for the 2004–05 estimate and 2004–05 actual.

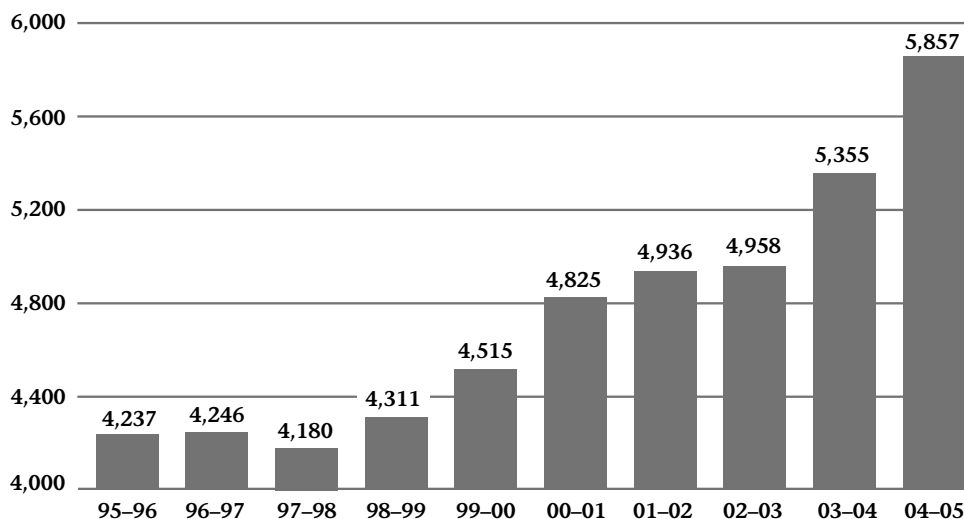
The \$16.6 million budget for Casino win tax, which is collected for the Province by the Nova Scotia Gaming Corporation and was included under the net revenues of the corporation, is now reported under Other Provincial revenues. The 2004–05 estimate has been restated in the new format.





**Revenues – Consolidated Fund  
1995–96 to 2004–05**

(\$ millions)



**Variance Analysis – Actual Compared With Estimate**

**Corporate Income Taxes**

Corporate income tax revenue (CIT) exceeded the 2004–05 estimate by \$65.3 million as a result of a 6.3 per cent increase in national corporate taxable income (CTI) and a 7.7 per cent increase in the Province’s share of CTI. This reflects stronger national and provincial corporate profit growth.

**Harmonized Sales Taxes**

Harmonized sales tax revenue (HST) in 2004–05 was \$15.7 million higher than estimate. Much of the increase in HST revenue is explained by a large jump of 18.7 per cent, or \$23.1 million, in HST revenue, from the housing sector. The Nova Scotia housing market, in keeping with the rest of the country, has been very buoyant for the past couple of years, and revenues have risen accordingly. In addition, higher spending by consumers and the public sector increased HST revenue by \$5.2 million and \$2.7 million respectively.

Negative revisions to administrative data in the business base offset the increase by \$12.7 million. In addition, provincial HST rebates rose by \$2.6 million.

## Selected Highlights of the Consolidated Fund

### Other Provincial Revenue

The Province's other provincial revenue was \$65.4 million in excess of the estimate in 2004–05. The major component of the excess was Offshore Licences Forfeitures of \$61.0 million. The Province is unable to estimate Offshore Licences Forfeitures, resulting in positive variances when revenues are received. In addition, offshore royalties of \$8.2 million higher than estimate resulted from higher natural gas prices. Corporation capital tax on financial institutions was \$3.5 million higher than the estimate as a result of a higher than anticipated number of tax filers. Other smaller increases were derived from a number of revenue sources.

Offsetting these increases, Corporations Capital Tax on Non-Financial Institutions was \$15.4 million lower than estimate due to significant negative revisions to final assessment data for 2003.

### Equalization

Nova Scotia's total share of national equalization entitlements for 2004–05 under the federal estimate was \$1.162 billion or 13.1 per cent. In October 2004, the federal government announced major changes to the equalization program whereby provinces would receive their official entitlements for 2004–05 based on national entitlements topped up to \$10.0 billion. Under the top-up, the federal government estimated that the Province would receive an additional \$150.4 million. Changes to equalization have been legislated by the federal government in Bill C-24 and have been incorporated into the 2004–05 actual revenues. The 2004–05 estimate was based on the equalization program prior to the new framework arrangement, so 2004–05 actual revenues were \$118.9 million greater than estimate.

### Offshore Offset

This revenue source is new for 2004–05 and 2005–06. In the 2003–04 federal budget, the federal government changed the equalization offset provision of the Canada–Nova Scotia Offshore Petroleum Resources Accord. The change recognizes that Nova Scotia did not receive the expected benefits of the provision when it was originally triggered by the Cohasset–Panuke Oil project in 1992–93. At the time of the 2003–04 federal budget, the federal government estimated the value of this payment at \$29.5 million, that is, a base of \$21.0 million plus 20 per cent of the value of the offshore activity in 2004–05. The 2004–05 federal budget re-estimated the value of the offshore offset as \$34.0 million for 2004–05 and \$4.0 million for 2005–06. There are no payments prior to 2004–05 and no payments after 2005–06.



### Canada Health Transfer (CHT)

### Canada Social Transfer (CST)

### Canada Health and Social Transfer (CHST)

Effective April 2004, the Canada Health and Social Transfer Program was divided into two separate programs renamed as Canada Health Transfer and Canada Social Transfer.

The 2004–05 actual for CHT and CST combined was \$25.4 million higher than estimate. This increase was primarily a result of a \$1.0 billion national increase in CHT stemming from the First Ministers' meeting on health care in September 2004. Nova Scotia's share of the increase was \$29.4 million.

The increase stemming from the increased federal investment in CHT/CST is offset by both a drop in the Province's population share from 2.940 per cent to 2.935 per cent, accounting for a decline of \$0.9 million, and by updated tax point data resulting in a further decline of \$0.5 million. In addition, \$2.5 million in CST funding for early learning and childhood development was deferred to 2005–06.

### Wait Times Reduction

As part of the First Ministers' meeting on health care held in September 2004, the federal government announced the Wait Times Reduction Transfer. The national payout in 2004–05 is \$625 million. The transfer to each province was based on their share (equal per capita) of the national population. Nova Scotia's share in 2004–05 is \$18.3 million or just over 2.9 per cent.

## Selected Highlights of the Consolidated Fund

### NET PROGRAM EXPENSES – CONSOLIDATED FUND

In total, Net Program Expenses for fiscal 2004–05 increased by \$115.1 million or 2.27 per cent over the original budget. Various factors contributed to the increased expenses; however, the major portion of the increase, \$81.9 million, resulted from the government's approval of \$10.0 million of funding for tourism initiatives in November 2004 and \$71.9 million for a number of strategic funding initiatives in December 2004.

The listing below contains the current and prior year actuals, the current year estimate and the current year estimate versus actual variance. The analysis that follows this chart includes explanations, by department, for the most significant variances.

### NET PROGRAM EXPENSES

(\$ thousands)

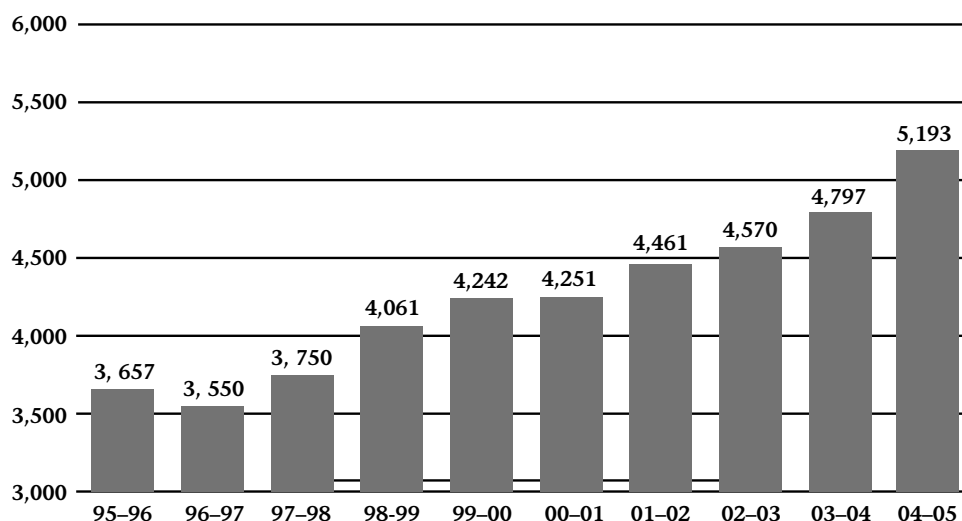
	Actual 2003–04	Estimate 2004–05	Actual 2004–05 (Decrease)	Estimate vs Actual Variance Increase
<b>Net Program Expenses</b>				
Agriculture and Fisheries	42,573	40,796	50,141	9,345
Community Services	659,410	694,145	704,440	10,295
Education	982,232	1,002,848	1,012,010	9,162
Assistance to Universities	212,804	206,531	227,117	20,586
Energy	6,433	7,350	6,835	(515)
Environment and Labour	26,544	26,152	25,711	(441)
Finance	12,788	14,134	12,312	(1,822)
Health	2,166,317	2,341,690	2,369,408	27,718
Justice	94,517	99,626	97,802	(1,824)
Natural Resources	56,814	59,322	58,755	(567)
Public Service	168,219	154,146	163,195	9,049
Service Nova Scotia and Municipal Relations	90,396	92,352	101,682	9,330
Tourism, Culture and Heritage	39,508	41,055	51,052	9,997
Transportation and Public Works	229,888	241,009	250,800	9,791
Restructuring Costs	8,722	56,474	61,450	4,976
<b>Total Net Program Expenses</b>	<b>4,797,165</b>	<b>5,077,630</b>	<b>5,192,710</b>	<b>115,080</b>

Additional appropriations require approval by the Governor-in-Council within 90 days of the issuance of these Public Accounts. These amounts are summarized by appropriation on page 31.



**Net Program Expenses – Consolidated Fund  
1995–96 to 2004–05**

(\$ millions)



**Variance Analysis – Actual Compared With Estimate**

**Agriculture and Fisheries**

In November 2004, the Executive Council approved \$8.9 million in additional funding for direct assistance to farmers through the Ruminant Support Program, the sector sustainability strategy, and support to the pork industry. A review of the Fisheries and Aquaculture Loan Board portfolio resulted in a \$0.6 million increase in the loan valuation allowance. The elimination of the \$0.5 million recovery from other provinces related to technical/vocational training provided at the Nova Scotia Agricultural College (NSAC) added to the increase from the original budget.

The increases noted above were offset, in part, by an increase in the University Assistance Grant to NSAC as a result of the additional funding provided to the universities in fiscal 2004–05 per the Memorandum of Understanding.

## Selected Highlights of the Consolidated Fund

### Community Services

Net expenses in the Housing Services division exceeded the original budget by \$20.3 million, as the provincial government increased its share of the spending on social housing programs and, through the strategic funding initiatives, committed \$6.7 million for Emergency Repair Programs and Public Housing.

The strategic funding initiatives also included \$2.0 million in funding for Work Activity Projects and Adult Service Centres for infrastructure grants; \$1.8 million for vans, furniture and repairs to facilities in non-profit organizations that the department funds through grants; and a \$0.5 million grant for the start-up of a wheelchair-recycling program.

The increases noted above have been offset, in part, by various savings in the department. Expenses were \$4.2 million lower than expected in the Maintenance of Children programs due to a decline in caseload and reduced costs per case for children in care. Delays in implementing child care expansion resulted in the deferral of \$2.5 million in spending in the Early Learning Child Care program. This revenue was received from the federal government in fiscal 2004–05 under the Canada Social Transfer for this program.

Other savings included a \$2.0 million reduction in the Nova Scotia Child Benefit as a result of a decline in the number of children eligible for benefits, \$1.8 million savings in the Pharmacare Program for income assistance clients, and \$3.8 million in administrative efficiencies throughout the department.

### Education

The strategic funding initiatives included \$2.4 million for building repairs; \$2.0 million for hardware and software acquisitions and related support; and \$1.1 million in additional program funding for P–12 schools, including additional learning resources and start-up costs for expansion of the school breakfast program. An additional \$1.1 million in infrastructure grants was also provided to the regional libraries.

Other increases in spending included \$1.0 million for repairs and maintenance to schools in addition to the strategic funding initiatives allotment. The accrual for teachers' salaries increased by \$2.9 million because of an extra teaching day in fiscal 2004–05; and, pension purchases and salary escalations resulted in a \$2.1 million increase in the matching contributions to the Teachers' Pension Plan. The provision of additional



learning resources for the P–12 schools and the approval of the Nova Scotia Community College’s Aviation Institute resulted in increased funding of \$0.5 million for each.

The increases noted above were offset, in part, by \$1.8 million in amortization expense savings, primarily related to the timing of school construction completions. Also, there was a reduction of \$1.5 million in the costs related to the NSTU benefits, and costs were \$0.9 million less than budgeted in the Student Assistance program for interest relief and debt-servicing costs.

### Assistance to Universities

As a result of the Memorandum of Understanding with the universities on tuition cost containment, the first instalment of \$20.3 million was provided to the universities in fiscal 2004–05, and an additional \$0.3 million was provided to the Atlantic Veterinary College.

### Energy

The decrease was due to a higher-than-anticipated cost recovery from industry as per the Canada–Nova Scotia Offshore Petroleum Board cost-recovery guidelines.

### Environment and Labour

Vacancies and administrative efficiencies throughout the department more than offset the lower-than-anticipated revenues from “fees and other charges” and increased grants paid by the department.

### Finance

The department’s expenses decreased as a result of a \$1.2 million reduction in amortization costs due to the delay in the implementation of Project e-Merge and savings achieved through the management of vacant positions and operating expenses.

### Health

The funding approved through the strategic funding initiatives included \$20.8 million for the district health authorities (DHAs), targeted primarily to deal with patient “wait time” pressures. The DHAs also received an additional \$19.1 million in capital grants for infrastructure projects. Service providers in the Long Term Care sector received \$4.2 million to cover deferred maintenance; healthy living initiatives received \$1.6 million; and, \$0.2 million was allocated for autism training costs.

## Selected Highlights of the Consolidated Fund

Other funded cost increases in the system include \$2.9 million in the Long Term Care sector as a result of an increase in the number of public pay residents in the system. The cost of the Pharmacare Program increased by \$3.3 million due to utilization increases, the recognition of the premium rebates to seniors and because anticipated savings from the initiative to restrict payment to only the cheapest drug in a class did not materialize.

The increases noted above have been partially offset by a variety of savings. There was a \$10.9 million decrease in medical payments due to vacancies in the alternative funding program as well as lower fee-for-service, on-call funding, and locum utilization. The Province's share of Canadian Blood Services' costs was reduced by \$4.4 million as a result of lower utilization and an improved US dollar exchange rate.

In the Revenue and Recovery division, the \$0.9 million decrease in out-of-province patient payments and the \$4.2 million increase in out-of-province recoveries more than offset the \$3.5 million decrease in third party liability recoveries, which resulted in an overall positive impact of \$1.6 million to the department's final results.

Lower utilization in the other insured programs contributed savings of \$2.9 million; and, \$1.5 million was saved by Emergency Health Services through the sale of retired ambulances, increased ambulance service fees for non-residents, a higher collection rate on the fees charged, and higher HST/cost-shared revenues and service fees, which were higher than budgeted. The remaining savings of \$3.1 million is related to a number of other program areas of the department.

### Justice

The lump sum payment of \$1.3 million on the mortgage of the Young Offender Centre in Waterville made in February 2005 and \$0.4 million additional costs in the Fatality Investigations Act division resulting from unbudgeted toxicology expenses and increased fees paid to the medical examiners and pathologists for medical examiner cases were more than offset by reductions in wages due to vacancies and administrative efficiencies achieved throughout the department.

### Natural Resources

Additional expenses of \$0.7 million were approved as strategic funding initiatives for provincial parks infrastructure. These costs were more than offset by administrative efficiencies throughout the department.





## Public Service

The significant variances of the Public Service divisions include the following:

### *Emergency Measures Organization of Nova Scotia*

The provincial portion of Hurricane Juan costs and additional expenses related to the March 2003 flood were expensed in fiscal 2004–05 because of delays in clarifying responsibility for certain eligible costs. The increased disaster relief activity added to EMO's salary and ancillary costs.

### *Executive Council*

The decrease in expenses was due to vacancy management and administrative efficiencies achieved by the various entities included in the appropriation.

### *Government Contributions to Benefit Plans*

Based on the year-end valuations, there was a negative adjustment of \$1.1 million to the Worker's Compensation Fund liability and a \$0.5 million increase in the vacation pay accrual. Rising premiums resulted in a \$0.7 million increase in the pensioners' consolidated health plan. These increases were more than offset by the \$6.4 million decrease in the Province's liability for long-term disability benefits, which was due primarily to the updated actuarial valuation and the accounting policy change to adopt smoothing for the plan assets.

### *Legislative Services*

Vacancies in certain positions coupled with a decrease in travel expenses for the members of the legislature reduced expenses by \$1.0 million. With the Legislature sitting shorter hours, there were decreased costs in the Office of the Speaker related to the pages, messengers, and casual staff.

### *Nova Scotia Business Inc.*

The variance was primarily the result of a reduction in the requirements for strategic investment funds through the payroll rebates.

### *Nova Scotia Securities Commission*

There were administrative efficiencies throughout the commission's operations.

## Selected Highlights of the Consolidated Fund

### *Office of Economic Development*

The strategic funding initiatives increased expenses by \$5.0 million. The initiatives included \$1.5 million for innovation incentives and \$3.5 million for Pier 21, the C@P program, and various community grants.

Additional funding, totalling \$5.4 million, was provided for innovation incentives and loan valuation allowances approved during the fiscal year. Also, \$5.0 million was provided to the NSRIT Fund for research and innovation, and \$3.0 million was allocated to the Dalhousie Life Sciences Institute. Recoveries under the Economic Diversification Agreement, which have been rebalanced to 70 per cent of the project costs over the life of agreement, were lower than budgeted by \$0.8 million.

The increases noted above have been offset, in part, by a \$0.9 million reduction in concessionary grants, as the concessionary criteria was not met in full during the fiscal year. Savings of \$1.2 million were realized from vacancies and operational savings.

### *Office of Health Promotion*

An additional \$1.6 million for recreational facility development grants was included in the strategic funding initiatives. The Executive Council also approved \$0.3 million for the nicotine replacement program and \$0.1 million for gaming addictions advertising material.

### Service Nova Scotia and Municipal Relations

Spending increased by \$7.8 million for the approved program costs associated with the Home Heating Assistance Program. The department transferred land to HRM related to the Halifax Harbour Solutions Project, which resulted in an expense of \$1.6 million. Also, \$0.6 million was provided for the Provincial Capital Assistance Program through the strategic funding initiatives, which were approved in December 2004.

These additional expenses have been offset, in part, by \$0.6 million in salary savings due to staff turnover and the management of vacant positions, as well as general savings in operating expenses.



### Tourism, Culture and Heritage

In November 2004, an additional \$10.0 million was approved for investment in programs that promote the province in key markets and to assist in tourism initiatives. The additional funding was distributed to three program areas: \$6.3 million for marketing, \$3.2 million for product development, and \$0.5 million for regional tourism initiatives.

### Transportation and Public Works

Based on revised cost estimates, the department increased the liabilities associated with the Boat Harbour Remediation initiative and the demolition of the Halifax Infirmary by \$7.0 million and \$3.5 million respectively. An expense of \$1.7 million was recorded as a result of the transfer of certain capital assets to the Nova Scotia Innovation Corporation. In October 2004, the Executive Council provided an additional \$0.5 million for brush cutting.

Approximately \$2.9 million in savings were realized through lower amortization costs and in the road maintenance and snow and ice control operations to partially offset the increases.

### Restructuring Costs

Savings in workforce adjustment costs and government restructuring, and the receipt of additional unallocated recoveries were more than offset by wage settlements that exceeded the original budget.

## Selected Highlights of the Consolidated Fund

### TANGIBLE CAPITAL ASSETS – CONSOLIDATED FUND

Under the Province's Tangible Capital Assets policy, a percentage of the original cost of an asset is charged to expenses in each year of the useful life of the asset. This charge is called amortization. Departments are required to budget for tangible capital asset purchases and the resulting amortization from the acquisition of these assets.

The cost of the estimated purchases of tangible capital assets is voted separately in the Capital Purchase Requirements appropriation, and the departmental details are noted below.

### CAPITAL PURCHASES

(\$ thousands)

DEPARTMENTS	Estimate 2004–05	Actual 2004–05	Variance Increase (Decrease)
Agriculture and Fisheries	313	339	26
Community Services	2,500	2,215	(285)
Education	89,344	89,493	149
Environment and Labour	140	96	(44)
Finance	6,759	5,819	(940)
Health	8,761	7,202	(1,559)
Natural Resources	3,120	4,889	1,769
Service Nova Scotia and Municipal Relations	1,305	1,881	576
Tourism, Culture and Heritage	2,921	2,843	(78)
Transportation and Public Works			
Highways and Bridges	112,227	112,435	208
Buildings and Infrastructure	20,735	21,224	489
Contingency	1,875	—	(1,875)
	250,000	248,436	(1,564)

Overall, the Capital Purchase Requirements appropriation was under budget by \$1.6 million in fiscal 2004–05. The Department of Natural Resources was overspent by \$1.7 million, as a result of land purchases; and, the Department of Health was underspent by \$1.6 million, primarily as a result of more than anticipated cost sharing by Canada Health Infoway on IT projects. An underexpenditure on IT projects in the



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Department of Finance resulted in \$0.9 million savings. As well, cash flow requirements changed due to adjustments in the construction schedules for various infrastructure projects, which contribute a net \$0.8 million reduction.

### AMORTIZATION

(\$ thousands)

DEPARTMENTS	Estimate 2004-05	Actual 2004-05	Variance Increase (Decrease)
Agriculture and Fisheries	370	255	(115)
Community Services	197	71	(126)
Education	47,698	45,901	(1,797)
Environment and Labour	39	28	(11)
Finance	2,158	1,002	(1,156)
Health	8,376	7,926	(450)
Justice	1,332	1,332	—
Natural Resources	813	802	(11)
Public Service	48	48	—
Service Nova Scotia and Municipal Relations	1,123	1,103	(20)
Tourism, Culture and Heritage	525	370	(155)
Transportation and Public Works	55,472	54,624	(848)
	<b>118,151</b>	<b>113,462</b>	<b>(4,689)</b>

This schedule reflects the amortization charged to operations related to the tangible capital assets that were acquired in prior years, as well as the charges related to the acquisitions made during fiscal 2004-05.

## Selected Highlights of the Consolidated Fund

### ADDITIONAL APPROPRIATIONS

Relative to the Appropriations Act, 2004 for the fiscal year ended March 31, 2005  
(\$ thousands)

R#*	Net Program Expenses	Estimate	Actual	Variance	Additional Appropriation Required
1	Agriculture and Fisheries	40,796	50,141	9,345	9,345
2	Community Services	694,145	704,440	10,295	10,295
3	Education	1,002,848	1,012,010	9,162	9,162
4	Assistance to Universities	206,531	227,117	20,586	20,586
5	Energy	7,350	6,835	(515)	—
6	Environment and Labour	26,152	25,711	(441)	—
7	Finance	14,134	12,312	(1,822)	—
9	Health	2,341,690	2,369,408	27,718	27,718
10	Justice	99,626	97,802	(1,824)	—
11	Natural Resources	59,322	58,755	(567)	—
12	Communications Nova Scotia	3,650	3,350	(300)	—
13	Emergency Measures Organization of Nova Scotia	782	3,506	2,724	2,724
14	Executive Council	15,300	14,265	(1,035)	—
15	FOIPOP Review Office	239	220	(19)	—
16	Government Contributions to Benefit Plans	7,890	3,794	(4,096)	—
17	Human Rights Commission	1,764	1,761	(3)	—
18	Legislative Services	18,218	17,014	(1,204)	—
19	Nova Scotia Advisory Council on the Status of Women	756	739	(17)	—
20	Nova Scotia Business Inc.	25,000	19,969	(5,031)	—
21	Nova Scotia Police Commission	299	286	(13)	—
22	Nova Scotia Securities Commission	1,581	1,186	(395)	—
23	Nova Scotia Utility and Review Board	2,882	2,882	—	—
24	Office of Economic Development	38,798	55,866	17,068	17,068
25	Office of Health Promotion	18,500	20,500	2,000	2,000
26	Office of the Auditor General	2,300	2,255	(45)	—
27	Office of the Ombudsman	915	804	(111)	—
28	Public Prosecution Service	14,500	14,034	(466)	—
29	Senior Citizen's Secretariat	772	764	(8)	—
30	Service Nova Scotia and Municipal Relations	92,352	101,682	9,330	9,330
31	Tourism, Culture and Heritage	41,055	51,052	9,997	9,997
32	Transportation and Public Works	241,009	250,800	9,791	9,791
33	Restructuring Costs	56,474	61,450	4,976	4,976
	<b>Other Appropriations</b>				
8	Debt-Servicing Costs	1,007,112	1,033,563	26,451	26,451
34	Debt Retirement Plan	10,000	6,000	(4,000)	—
35	Capital Purchase Requirements	250,000	248,436	(1,564)	—
36	Sinking Fund Instalments and Serial Retirements	111,187	108,317	(2,870)	—

Note: Section 28 (3) of the Provincial Finance Act requires that any additional spending authority required must be approved by the Governor in Council no later than 90 days after the tabling of the Public Accounts.

\* Refers to the Resolution Number in the Appropriations Act, 2004.



## Debt Review of the Consolidated Fund

### OVERVIEW

In fiscal 2004–05, the Province of Nova Scotia posted a surplus of \$165.3 million. The net direct debt of the Province as of March 31, 2005 was \$12.3 billion, a decrease of \$19.4 million from the net direct debt at the end of fiscal 2003–04. The Province's net direct debt to gross domestic product ratio decreased to 41.0 per cent at March 31, 2005 from 42.8 per cent a year earlier.

### Credit Ratings

The Province's credit rating was reviewed by three major bond-rating agencies over the past year. On June 21, 2005, Dominion Bond Rating Services (DBRS) confirmed its rating of the Province at A (low) but changed its outlook for the rating to "positive" from "stable." DBRS cited a "notable improvement in the Province's debt and fiscal profiles" as the rationale for the change. This action follows a rating upgrade by Moody's Investor Services, which raised the Province's rating to A2 (stable) from A3 in September 2004. Standard & Poors last upgraded the Province's rating in August 2004 to A from A–.

### Capital Markets Issuance Initiatives

The Province of Nova Scotia borrowed \$536 million in fiscal year 2004–05, an increase over its original estimate of \$340 million. This increase in borrowing was due in part to the government's financing various Crown corporation activities—in particular \$61 million for the Nova Scotia Municipal Finance Corporation—and \$115 million of debt issues called by the Province during the fiscal year.

The Province's \$536 million borrowing program comprised one 10-year domestic public issue for \$200 million; seven domestic retail structured notes issued under the province's medium-term note program totaling \$250 million; and the roll-over of an \$86 million Canada Pension Plan debt issue.

## **FINANCIAL RISK MANAGEMENT**

### **Foreign Currency Risk**

In order to more fully access global capital markets, the Province of Nova Scotia borrows and has borrowed in currencies other than the Canadian dollar. GAAP requires that all financial amounts in the financial statements be presented in Canadian funds.

Conversion of foreign currency amounts outstanding is calculated annually at March 31. This results in a foreign currency gain or loss from year to year as the currency exchange rates fluctuate. As described in Note 1c on page 75, the foreign exchange gains or losses on longer-term financial items are charged over the remaining life of the item.

The province has reduced its exposure to foreign currency debt in recent years through the use of derivatives and by the accumulation of US\$-denominated assets to be held in sinking funds. All of the remaining foreign currency exposure is to US dollars. As at March 31, 2005, the Province's foreign currency exposure stood at 16.2 per cent on a gross basis (down from 16.8 per cent at March 31, 2004) and 11.9 per cent net of USD sinking funds.

### **Interest Rate Risk**

As a net borrower in financial markets, the Province is exposed to the risks posed by varying interest rates. The Province is exposed to interest rate risk as maturing debenture issues are refinanced at current market rates. Some exposure to fluctuating short-term rates is maintained as a choice variable on the debt portfolio. The Province has set exposure limits on interest rate risk and maintains control over this exposure through the active management of its debt and asset portfolios.

The debt portfolio's exposure to floating interest rates rose slightly to 21.7 per cent for the fiscal year ended March 31, 2005. This level is at the low end of the Province's 15 to 35 per cent floating rate exposure policy range. With 78.3 per cent of the total principal in fixed-rate form, there will be stability in debt-serving costs in future years. At March 31, 2005, the average term to maturity of the debt portfolio stood at 9.7 years, 0.2 years shorter than a year earlier.





## Debt-Servicing Costs – Consolidated Fund

Net debt-servicing costs in fiscal 2004–05 were \$890.3 million, an increase of \$34.2 million from the previous year and \$18.5 million higher than the restated estimate.

Net debt servicing costs were \$18.5 million higher than budget, mainly due to a \$17.8 million variance in pension related debt servicing costs. A change in the discount rate on funded pension plans alone increased the interest on the accrued benefit obligation and expected returns on pension assets for accounting purposes by a net amount of \$22.7 million. In relation to other unfunded retirement benefits, the information on the impact of changing the discount rate is not included in the above amounts.

### Net Debt-Servicing Costs (\$ millions)

	Actual 2003–04 (as restated)	Estimate 2004–05	Actual 2004–05	Estimate vs Actual Variance
<b>Debt-Servicing Costs</b>				
Interest on Long-Term Debt	920,657	863,287	869,966	6,679
General Interest	30,273	44,641	46,584	1,943
Interest on Pension, Retirement, and Other Obligations	88,778	99,184	117,013	17,829
Gross Debt-Servicing Costs	1,039,708	1,007,112	1,033,563	26,451
Less: Sinking Fund Earnings	(183,623)	(135,291)	(143,235)	(7,944)
<b>Net Debt-Servicing Costs</b>	<b>856,085</b>	<b>871,821</b>	<b>890,328</b>	<b>18,507</b>

**Note:**

For financial statement purposes, short-term interest revenue, which was formerly netted against general interest expenses in Gross Debt-Servicing Costs, is now included in Interest Revenues in Ordinary Revenue. The 2003–04 actual results have been restated in this format. Also, Public Debt Retirement Fund Earnings, which were formerly included in Gross Debt-Servicing Costs, are now included in Sinking Fund Earnings.

## Debenture Debt

The Province's net debenture debt (outstanding debentures less sinking funds and the Public Debt Retirement Fund) was \$9.8 billion in Canadian dollar equivalent at the rate of exchange in effect on March 31, 2005. Of this amount, \$133.2 million represents the difference between the value of the foreign currency debt at the exchange rate at the issue date and the net hedged value on March 31, 2005. This amount will fluctuate from year to year, based on exchange rates in effect at year-end.

The Province of Nova Scotia provides sinking fund instalments for certain term debt issues except Canada Pension Plan and medium-term note issues. Annual sinking fund instalments generally range from 1 per cent to 3 per cent of the original issue, but may vary slightly from year to year based on actual and anticipated rates of return on sinking fund assets. Instalments are designed to fully fund the issue over 20 years or the life of the issue, whichever is longer. Sinking funds are treated as trust funds and are used solely for debt retirement. Sinking funds related to US dollar debt are invested in US dollar-denominated securities.

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### Outstanding Debentures (CDN\$ Equivalents)

(\$ millions)

	2003-04	2004-05
Debentures Payable in Canadian Dollars		
Canada Pension Plan Investment Fund	1,079	1,079
Other Issues	9,923	9,140
United States Dollars	2,357	2,143
	13,359	12,362
Less: Sinking Funds and Public Debt Retirement Fund	(2,920)	(2,599)
<b>Net Debenture Debt</b>	<b>10,439</b>	<b>9,763</b>

## Borrowing Powers

Long-term debt issued by way of debentures and medium-term notes is subject to a legislative authority to borrow through the Appropriations Act. Unused portions of these authorities carry forward to be used in future years. In fiscal 2004-05, the Province borrowed (face value) \$536 million in long-term debentures, which was applied to the 2002-03 authority.



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**Statement of Borrowing Powers as at March 31, 2005**  
**(\$ thousands)**

	2003-04	2004-05
Balance of Authority from Previous Fiscal Years	1,095,291	1,479,694
Authority Approved for the Fiscal Year	1,500,000	1,000,000
<b>Total Authority at Beginning of Fiscal Year</b>	<b>2,595,291</b>	<b>2,479,694</b>
Less: Authority Used in the Previous Fiscal Year	1,115,597	
Less: Authority Used in the Current Fiscal Year:		
Promissory Note P86		35,000
Promissory Note P87		55,000
Promissory Note P88		20,000
Promissory Note P89		40,000
Promissory Note P90		30,000
Promissory Note P91		20,000
Promissory Note P92		50,000
Debenture Series B6		200,000
Debenture Series CP41		85,762
<b>Total</b>		<b>535,762</b>
<b>Balance of Authority at End of Fiscal Year</b>	<b>1,479,694</b>	<b>1,943,932</b>

Additional Borrowing Powers

Cape Breton Industrial Assistance Act, Chapter 60, R.S.N.S. 1989

Housing Act, Chapter 211, R.S.N.S. 1989

Housing Development Corporation Act, Chapter 213, R.S.N.S. 1989

Municipal Finance Corporation Act, Chapter 301, R.S.N.S.1989

Sydney Steel Corporation Act, Chapter 456, R.S.N.S 1989

## The Economy

### ECONOMIC INDICATORS

Economic indicators for the calendar year 2004 form the basis of the following discussion for the year ended March 31, 2005. The data for 2005 is Department of Finance forecast as of July 22, 2005 (F) and is provided for information purposes only.

	2000	2001	2002	2003	2004	2005 (Forecast)
Gross Domestic Product at Market Prices (\$ millions)	24,658	25,942	27,247	28,912	30,036	31,295
Annual % Change	6.9	5.2	5.0	6.1	3.9	4.2
Gross Domestic Product at Market Prices (Chained 1997 \$ millions)	22,970	23,641	24,874	25,180	25,500	26,026
Annual % Change	3.1	2.9	5.2	1.2	1.3	2.1
Personal Income (\$ millions)	22,353	23,105	23,793	24,588	25,385	26,278
Annual % Change	4.4	3.4	3.0	3.3	3.2	3.5
Consumer Price Index Nova Scotia (Annual % Change)	3.5	1.8	3.0	3.4	1.8	2.4
Population (thousands of persons)	934	932	935	936	937	938

Sources: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB  
 Statistics Canada Quarterly Demographics Statistics, Cat. No. 91-002-XPB  
 Nova Scotia Department of Finance



## ECONOMIC PERFORMANCE

### Output

The Nova Scotia economy continued to grow in 2004, driven by consumer and government spending on goods and services, along with capital expenditures on residential construction and machinery and equipment. Rising commodity prices had a positive effect, offset by the appreciating exchange rate.

Statistics Canada reported a real GDP growth rate of 1.3 per cent for Nova Scotia in 2004, slightly stronger than 1.2 per cent for 2003. The nominal GDP growth rate, adjusted for higher prices, was 3.9 per cent.

Residential capital expenditures were up 10.2 per cent, supported by a 9.8 per cent increase in new home construction and a 15.6 per cent increase in renovation expenditures.

Capital expenditures on machinery and equipment were up 5.2 per cent, reflecting to some degree the rapid rise of the Canadian dollar. Government spending on goods and services increased by 4.9 per cent in 2004, following an increase of 4.2 per cent in 2003.

External markets and business capital investment for non-residential construction were the weak sectors in 2004. Business capital investments for non-residential construction dropped 6.2 per cent, reflecting mostly a slower pace for offshore energy developments.

Exports of goods and services were up 3.6 per cent, as compared to 4.1 per cent in 2003. Continued growth for the North American economy helped to counter the dampening impacts of the higher exchange rate. A 4.6 per cent increase in total imports resulted in a higher trade deficit in 2004, putting downward pressure on economic growth. More imports reflect the value of the higher exchange rate, as firms purchased more machinery and equipment. This increase in machinery and equipment investment will help improve productivity in the long run.

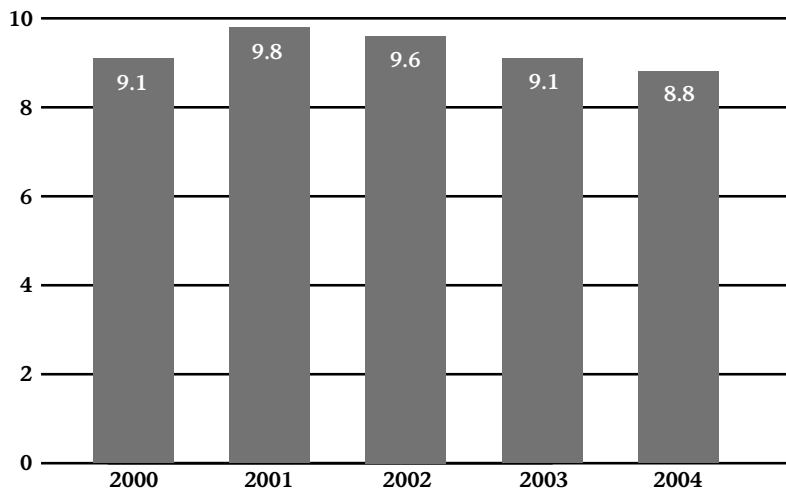
### Labour Markets

Employment increased in 2004 by 2.4 per cent to 441,600 jobs, the highest growth rate in Canada. There was a net gain of 10,300 new jobs, and the labour force grew 2.0 per cent.

With employment growing at a faster pace than the labour supply, the unemployment rate dropped in 2004 to 8.8 per cent, compared to 9.1 per cent for 2003.

Both the participation rate (64.0 per cent) for people entering the labour force and the employment rate (58.3 per cent) reached higher levels, suggesting that Nova Scotians were both optimistic and successful in finding gainful employment.

***Unemployment Rate  
2000 to 2004***  
*(Per cent)*



Source: Statistics Canada, 2004 Labour Force Historical Review, Cat. No. 71F0004XCB, February 2005.

**Consumer Spending and Income**

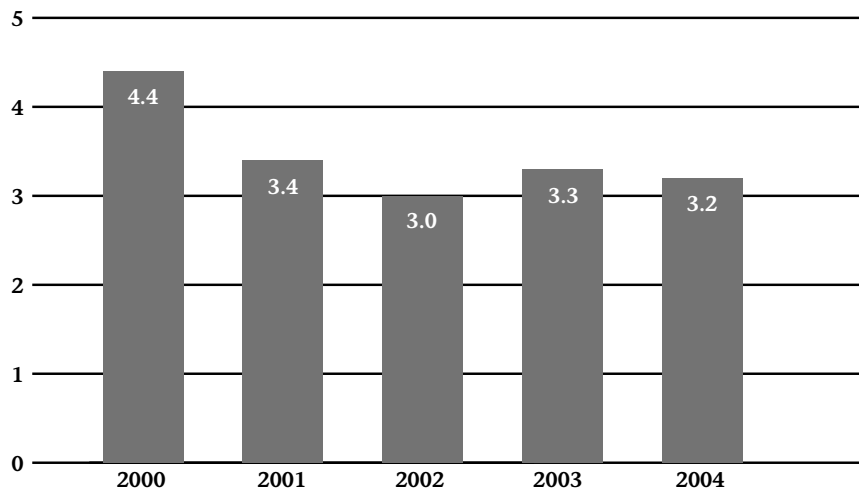
Personal expenditures on goods and services increased 4.5 per cent in 2004, down slightly from 4.6 per cent in 2003, while retail sales were up 2.8 per cent. The additional consumer spending was concentrated in non-durable goods and services, with each reporting an increase of 4.9 per cent and 5.2 per cent, respectively.



Nova Scotians experienced reasonable personal income growth in 2004, at 3.2 per cent in 2004, compared to a 3.3 per cent in 2003. Growth of labour income, the largest share of personal income, was slightly less than in 2003 (3.3 per cent compared to 4.3 per cent), but this drop was offset by higher personal transfer payments and interest and dividends investment income.

***Personal Income Growth  
2000 to 2004***

*(Per cent)*



Source: Statistics Canada, Provincial Economic Accounts, Cat. No. 13-213-PPB

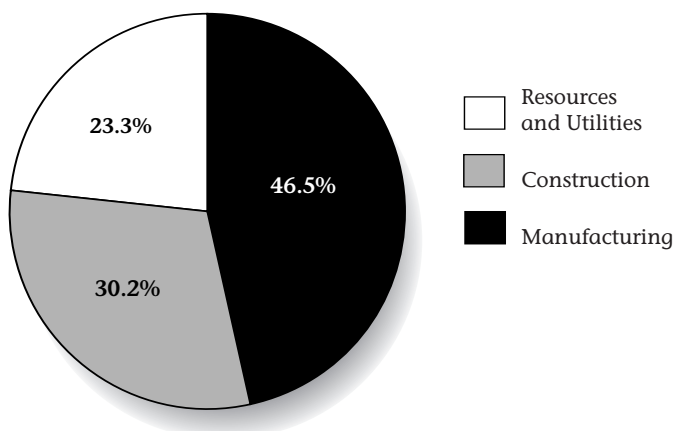
## INDUSTRY EMPLOYMENT PERFORMANCE

### Goods Industries

Employment in goods-producing industries was up 0.8 per cent in 2004, accounting for 21.0 per cent of the total employment in the Nova Scotia economy in 2004.

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#### *Employment by Goods Industries 2004 (As a Percentage of Total Goods Industries Employment)*



Source: Statistics Canada, 2004 Labour Force Historical Review, Cat. No. 71F0004XCB, February 2005.

The booming housing market stimulated demand for more construction trade workers, and the construction sector saw employment increase 12.9 per cent. Employment growth in the manufacturing sector was down 2.9 per cent, despite the 7.4 per cent increase in manufacturing shipments. The fishing sector saw a slight increase, while agriculture and forestry reported declines. Meanwhile, the mining, oil, and gas extraction sector saw no change in employment, reflecting a slower pace in offshore oil and gas exploration.



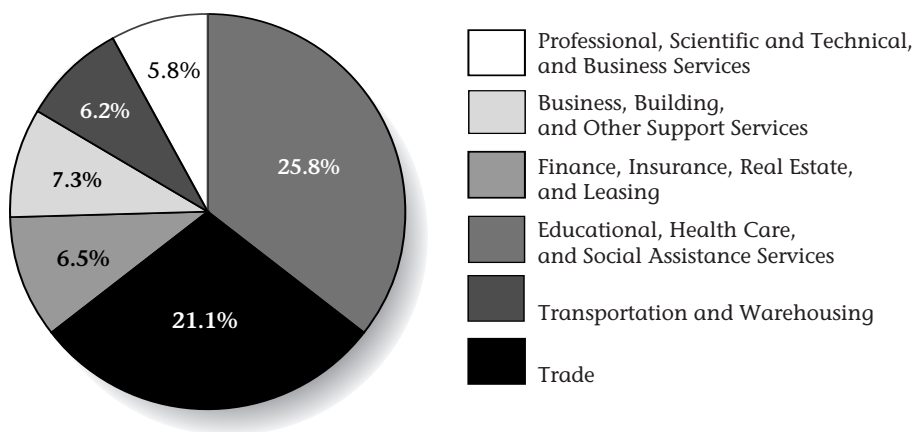


## Services Industries

Nova Scotia is predominantly a service-sector economy, with 78.9 per cent of Nova Scotia's employment in 2004. Most of the employment growth in 2004 occurred in services industries, which registered a 2.8 per cent gain in employment.

The educational, health care, and social assistance services sector is the largest component of the services sector, with 25.8 per cent of the employment. Employment for health care and social assistance reported an increase of 1.1 per cent. Educational services grew by 7.1 per cent during 2004. The trade sector (retail and wholesale), the next largest sector, represents 21.1 per cent of employment in services. This sector experienced an employment increase of 1.4 per cent in 2004. Employment in the wholesale sector was up 1.1 per cent, followed by an increase of 1.5 per cent for the retail sector.

***Employment by Service Industries 2004  
(As a Percentage of Total  
Service Industries Employment)***



Source: Statistics Canada, 2004 Labour Force Historical Review, Cat. No. 71F0004XCB, February 2005.

## The Economy

Employment growth was strong in the transportation and warehousing services; professional, scientific, and technical services; and business, building, and other support services, which grew by 5.4 per cent, 11.7 per cent, and 12.3 per cent, respectively. There were more jobs in all forms of transportation except postal and sightseeing services and in business services except travelling services.

Accommodation and food services had a 2.0 per cent increase in employment, reflecting the continued gains from tourism in 2004.

Employment in public administration was almost flat in 2004, with gains in employment for the federal and provincial governments overriding the job losses for municipal governments.

Employment decreases in 2004 were evident in information, culture, and recreation, which reported a drop of 2.9 per cent. Most of this decline occurred in the broadcasting and telecommunications services. Other services (repair, laundry, and other personal services) had a 5.5 per cent decline.



**Public Accounts Volume 1 — Financial Statements**

# **Consolidated Financial Statements**



**Public Accounts Volume 1 — Financial Statements**



## **Statement of Responsibility for the Consolidated Financial Statements of the Province of Nova Scotia**

Responsibility for the integrity, objectivity, and fair presentation of the consolidated financial statements of the Province of Nova Scotia rests with the government. These financial statements are prepared on behalf of the Minister and Deputy Minister of Finance by the Controller in accordance with the accounting principles recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by other CICA and International Federation of Accountants accounting standards or pronouncements.

The consolidated financial statements include a Consolidated Statement of Financial Position, a Consolidated Statement of Operations and Accumulated Deficits, a Consolidated Statement of Change in Net Direct Debt, and a Consolidated Statement of Cash Flow. They present fairly, in all material respects, the financial position and the results of operations for the year ended.

The government is responsible for maintaining a system of internal accounting and administrative controls in order to provide reasonable assurance that transactions are appropriately authorized, assets are safeguarded, and financial records are properly maintained.

Under the mandate in section 9 of the Auditor General Act, the Auditor General of Nova Scotia provides an independent opinion on the consolidated financial statements prepared by the government.

A handwritten signature in black ink, appearing to read "Byron Rafuse".

Byron Rafuse, CMA  
Controller



**Public Accounts Volume 1 — Financial Statements**



Office of the Auditor General

## AUDITOR'S REPORT

*To the Members of the Legislative  
Assembly of Nova Scotia*

I have audited the consolidated statement of financial position of the Province of Nova Scotia as at March 31, 2005 and the consolidated statements of operations and accumulated deficits, change in net direct debt and cash flow for the year then ended. These statements are the responsibility of the Government of Nova Scotia, represented by the Minister of Finance. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Province of Nova Scotia as at March 31, 2005 and the results of its operations, changes in net direct debt and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for the public sector.

A handwritten signature in cursive script that reads "E. Roy Salmon".

E. Roy Salmon, FCA  
Auditor General

Halifax, Nova Scotia  
August 16, 2005





**Public Accounts Volume 1 — Financial Statements**

## Consolidated Financial Statements

### STATEMENT 1

#### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at March 31, 2005

(\$ thousands)

	2005	2004 (as restated)
<b>Financial Assets</b>		
Cash and Short-term Investments (Note 4)	402,020	538,972
Accounts Receivable and Advances	548,713	462,401
Inventories for Resale	1,040	665
Loans Receivable (Schedule 3)	1,031,834	920,186
Investments (Schedule 3)	38,080	44,926
	2,021,687	1,967,150
<b>Liabilities</b>		
Bank Advances and Short-term Borrowings	1,048,388	585,312
Accounts Payable and Accrued Liabilities	1,097,900	1,079,586
Deferred Revenue	251,124	112,737
Accrued Interest	229,381	240,981
Unmatured Debt of Governmental Units (Schedule 4)	10,209,570	11,088,046
Unamortized Foreign Exchange Translation Gains (Losses)	22,259	(121,791)
Unamortized Premiums and Discounts	(14,483)	(14,937)
Federal Equalization Repayable Loan (Note 6)	120,322	—
Pension, Retirement and Other Obligations (Note 7)	1,361,698	1,311,663
Deficiency in Government Business Enterprises (Schedule 6)	3,935	13,377
	14,330,094	14,294,974
<b>Net Direct Debt</b>	(12,308,407)	(12,327,824)
<b>Non-Financial Assets</b>		
Tangible Capital Assets (Schedule 7)	3,206,830	3,064,028
Inventories of Supplies	19,766	17,746
Prepaid Expenses	14,882	13,828
	3,241,478	3,095,602
<b>Accumulated Deficits</b>	(9,066,929)	(9,232,222)
<b>Trust Funds under Administration (Note 8)</b>	8,139,191	7,720,671

Accounting Changes (Note 2)

Contingencies and Contractual Obligations (Note 12)

Subsequent Events (Note 13)

Comparative Figures (Note 14)

The accompanying notes and schedules are an integral part of these Financial Statements.



STATEMENT 2

**CONSOLIDATED STATEMENT OF OPERATIONS  
AND ACCUMULATED DEFICITS**

for the fiscal year ended March 31, 2005

(\$ thousands)

	2005	2004 (as restated)
<b>Revenue (Schedule 1)</b>		
Provincial Sources	3,672,648	3,327,467
Federal Sources	2,208,717	1,885,833
Prior Years' Adjustments –		
Federal/Provincial Fiscal Arrangements	(38,186)	122,043
Other Revenue	608,252	537,455
Sinking Fund and Public Debt Retirement Fund Earnings	143,235	183,623
<b>Total Revenue</b>	<b>6,594,666</b>	<b>6,056,421</b>
<b>Net Expenses (Schedule 2)</b>		
Agriculture and Fisheries	50,275	42,573
Community Services	724,678	677,648
Education	1,286,249	1,223,544
Assistance to Universities	227,117	212,804
Energy	8,702	6,433
Environment and Labour	64,566	64,222
Finance	23,933	12,452
Health	2,543,560	2,357,196
Justice	94,972	92,014
Natural Resources	60,781	61,483
Public Service	181,183	186,861
Service Nova Scotia and Municipal Relations	103,742	90,698
Tourism and Culture	52,671	40,681
Transportation and Public Works	247,563	229,708
Restructuring Costs	38,216	5,240
Pension Valuation Adjustment	6,336	(12,345)
Loss (Gain) on Disposal of Crown Assets	(2,754)	(3,686)
Debt Servicing Costs (Note 10)	1,067,090	1,072,890
<b>Total Net Expenses (Note 9)</b>	<b>6,778,880</b>	<b>6,360,416</b>
<b>Deficit from Governmental Units, on an Expense Basis</b>	<b>(184,214)</b>	<b>(303,995)</b>
<b>Net Income from Government Business Enterprises (Schedule 6)</b>	<b>349,507</b>	<b>333,342</b>
<b>Surplus before Unusual Items, on an Expense Basis</b>	<b>165,293</b>	<b>29,347</b>
Unusual Item (Note 3)	—	8,734
<b>Provincial Surplus, on an Expense Basis</b>	<b>165,293</b>	<b>38,081</b>
Accumulated Deficits, Beginning of Year		
As Previously Reported	(9,238,890)	(9,281,477)
Accounting Changes (Note 2)	6,668	11,174
As Restated	(9,232,222)	(9,270,303)
<b>Accumulated Deficits, End of Year</b>	<b>(9,066,929)</b>	<b>(9,232,222)</b>

**Consolidated Financial Statements****STATEMENT 3****CONSOLIDATED STATEMENT OF CHANGE IN NET DIRECT DEBT**

for the fiscal year ended March 31, 2005

(\$ thousands)

	2005	2004 (as restated)
<b>Net Direct Debt, Beginning of Year</b>		
As Previously Reported	(12,332,010)	(12,225,971)
Accounting Changes (Note 2)	4,186	9,944
As Restated	(12,327,824)	(12,216,027)
<b>Changes in the Year</b>		
Provincial Surplus, on an Expense Basis	165,293	38,081
Acquisition of Tangible Capital Assets	(343,075)	(330,531)
Amortization of Tangible Capital Assets	195,456	185,193
Disposals and other Adjustments to Tangible Capital Assets	4,817	1,346
Increase in Inventories of Supplies	(2,020)	(2,047)
Decrease (Increase) in Prepaid Expenses	(1,054)	(3,839)
Total Changes in the Year	19,417	(111,797)
<b>Net Direct Debt – End of Year</b>	(12,308,407)	(12,327,824)

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The accompanying notes and schedules are an integral part of these Financial Statements.



**STATEMENT 4**

**CONSOLIDATED STATEMENT OF CASH FLOW**

for the fiscal year ended March 31, 2005

(\$ thousands)

	2005	2004 (as restated)
<b>Cash Inflow (Outflow) from the following activities:</b>		
<b>Operating:</b>		
Provincial Surplus, on an Expense Basis	165,293	38,081
Sinking Fund and Public Debt Retirement Fund Earnings	(143,235)	(183,623)
Foreign Exchange Amortization	1,145	(7,260)
Amortization of Tangible Capital Assets	195,456	185,193
Net Income from Government Business Enterprises	(349,507)	(333,342)
Profit Distributions from Government Business Enterprises	340,065	326,788
Net Change in Other Items (Note 11)	568,451	257,726
	<u>777,668</u>	<u>283,563</u>
<b>Investing:</b>		
Repayment of Loans	167,367	122,683
Advances and Investing	(272,169)	(152,030)
	<u>(104,802)</u>	<u>(29,347)</u>
<b>Capital:</b>		
Acquisition of Tangible Capital Assets	(343,075)	(330,531)
Disposal of Tangible Capital Assets - NBV	4,817	1,346
	<u>(338,258)</u>	<u>(329,185)</u>
<b>Financing:</b>		
Debentures Issued	461,715	931,419
Proceeds from Federal Equalization Repayable Loan	120,322	—
Foreign Currency Swaps and Adjustments	26,138	32,337
Sinking Fund Installments	(75,098)	(58,814)
Proceeds from Sinking Funds for Debt Repayment	500,000	718,597
Repayment of Debentures and Other Long-term Obligations	(1,504,637)	(1,275,711)
	<u>(471,560)</u>	<u>347,828</u>
<b>Cash (Outflows) Inflows</b>	(136,952)	272,859
<b>Cash Position, Beginning of Year</b>	538,972	266,113
<b>Cash Position, End of Year</b>	<u>402,020</u>	<u>538,972</u>
<b>Cash Position Represented by</b>		
Cash and Short-Term Investments	402,020	538,972

The accompanying notes and schedules are an integral part of these Financial Statements.

**Schedules to the Consolidated Financial Statements**

**SCHEDULE 1**

**REVENUE**

for the fiscal year ended March 31, 2005

(\$ thousands)

	2005	2004 (as restated)
<b>Provincial Sources</b>		
Income Taxes	1,791,325	1,602,375
Sales Taxes	1,472,773	1,401,456
Other Provincial Revenue	408,550	323,636
	<hr/> 3,672,648	<hr/> 3,327,467
<b>Federal Sources</b>		
Equalization Payments	1,321,774	1,114,487
Canada Health and Social Transfers	729,395	686,853
Other Federal Payments	157,548	84,493
	<hr/> 2,208,717	<hr/> 1,885,833
<b>Prior Years' Adjustments – Federal/Provincial Fiscal Arrangements</b>		
Provincial Sources	(63,279)	124,666
Federal Sources	25,093	(2,623)
	<hr/> (38,186)	<hr/> 122,043
<b>Other Revenue</b>	608,252	537,455
<b>Sinking Fund and Public Debt Retirement Fund Earnings</b>	143,235	183,623
<b>Total Revenue</b>	<hr/> 6,594,666	<hr/> 6,056,421



**SCHEDULE 2**

**NET EXPENSES**

for the fiscal year ended March 31, 2005

(\$ thousands)

	2005	2004 (as restated)
<b>Agriculture and Fisheries</b>		
Department of Agriculture and Fisheries	50,092	42,573
CIDA Ghana/Africa Project	183	—
Nova Scotia Blueberry Institute Fund	—	—
	50,275	42,573
<b>Community Services</b>		
Department of Community Services	640,633	606,207
Mainstream 1992 Fund	—	—
Nova Scotia Housing Development Corporation	84,045	71,441
	724,678	677,648
<b>Education</b>		
Department of Education	206,206	213,377
Annapolis Valley Regional School Board	104,118	97,073
Cape Breton Victoria Regional School Board	128,035	121,260
Chignecto-Central Regional School Board	160,333	145,605
Conseil Scolaire Acadien Provincial	34,005	31,442
Halifax Regional School Board	342,499	319,774
Nova Scotia Community College	128,563	125,436
Nova Scotia Government Acadian Bursary Program Fund	—	—
P3 Schools Capital and Technology Refresh Fund	29	104
School Board Maintenance Stabilization Fund	—	—
South Shore Regional School Board	39,094	—
Southwest Regional School Board	35,381	103,507
Strait Regional School Board	70,988	65,966
Tri County Regional School Board	36,998	—
	1,286,249	1,223,544
<b>Assistance to Universities</b>	227,117	212,804
<b>Energy</b>		
Department of Energy	6,835	6,433
Nova Scotia Market Development Initiative Fund	1,867	—
Pengrowth Nova Scotia Energy Scholarship Fund	—	—
	8,702	6,433

**Schedules to the Consolidated Financial Statements**

**SCHEDULE 2**

**NET EXPENSES (CONTINUED)**

for the fiscal year ended March 31, 2005

(\$ thousands)

	2005	2004 (as restated)
<b>Environment and Labour</b>		
Department of Environment and Labour	25,698	26,524
Nova Scotia Environmental Trust Fund	—	—
Resource Recovery Fund Board Incorporated	38,868	37,698
	<hr/> 64,566	<hr/> 64,222
<b>Finance</b>		
Department of Finance	12,588	10,786
Debt Retirement Fund	—	—
Nova Scotia Government Fund Limited	112	1,574
Nova Scotia Hurricane Juan Recovery Fund	183	—
Sydney Steel Corporation	—	—
3052155 Nova Scotia Limited	11,050	92
	<hr/> 23,933	<hr/> 12,452
<b>Health</b>		
Department of Health	991,470	899,312
Annapolis Valley District Health Authority	83,602	75,483
Cape Breton District Health Authority	193,036	181,548
Capital District Health Authority	581,911	562,409
Colchester East Hants Health Authority	51,877	44,583
Cumberland Health Authority	44,048	40,013
Gaming Addiction Treatment Trust Fund	—	1,202
Guysborough Antigonish-Strait Health Authority	54,173	47,517
Insured Prescription Drug Plan	146,087	133,962
Izaak Walton Killam Health Centre	150,275	139,703
Nova Scotia Gaming Foundation	2,089	632
Nova Scotia Health Research Foundation	4,617	4,941
Pictou County Health Authority	55,661	49,813
Provincial Drug Distribution Program	63,357	61,298
South Shore District Health Authority	52,407	49,813
South West Nova District Health Authority	68,950	64,967
	<hr/> 2,543,560	<hr/> 2,357,196
<b>Justice</b>		
Department of Justice	78,522	77,759
CorFor Capital Repairs and Replacement Fund	—	—
Nova Scotia Legal Aid Commission	16,450	14,255
	<hr/> 94,972	<hr/> 92,014





**SCHEDULE 2**

**NET EXPENSES (CONTINUED)**  
for the fiscal year ended March 31, 2005  
(\$ thousands)

	2005	2004 (as restated)
<b>Natural Resources</b>		
Department of Natural Resources	57,846	58,766
Acadia Coal Company Limited Fund	—	21
Coal Research Agreement Fund	—	—
Crown Land Mine Remediation Fund	33	—
Crown Land Silviculture Fund	—	—
Nova Scotia E 911 Cost Recovery Fund	2,668	2,591
Habitat Conservation Fund	119	105
Partnership Trust Fund	15	—
Scotia Benefits Fund	—	—
Species-at-Risk Conservation Fund	—	—
Sustainable Forestry Fund	100	—
	60,781	61,483
<b>Public Service</b>		
Public Service	136,563	137,247
Nova Scotia Business Incorporated	20,269	26,508
Nova Scotia Film Development Corporation	3,030	3,629
Nova Scotia Innovation Corporation	5,032	5,077
Trade Centre Limited	12,001	12,119
Waterfront Development Corporation Limited	4,288	2,281
	181,183	186,861
<b>Service Nova Scotia and Municipal Relations</b>		
Department of Service Nova Scotia and Municipal Relations	102,395	90,396
Nova Scotia Coordinate Referencing System Trust Fund	—	—
Nova Scotia Municipal Finance Corporation	1,347	302
	103,742	90,698
<b>Tourism, Culture and Heritage</b>		
Department of Tourism, Culture and Heritage	49,450	37,948
Art Gallery of Nova Scotia	3,221	2,733
	52,671	40,681
<b>Transportation and Public Works</b>		
Department of Transportation and Public Works	247,563	229,708
Sydney Tar Ponds Agency	—	—
	247,563	229,708

**Schedules to the Consolidated Financial Statements**

**SCHEDULE 2**

**NET EXPENSES (CONTINUED)**

for the fiscal year ended March 31, 2005

(\$ thousands)

	2005	2004 (as restated)
<b>Restructuring Costs</b>	38,216	5,240
<b>Pension Valuation Adjustment</b>	6,336	(12,345)
<b>Loss (Gain) on Disposal of Crown Assets</b>	(2,754)	(3,686)
<b>Debt Servicing Costs</b>		
Consolidated Fund	1,019,004	1,022,703
Annapolis Valley District Health Authority	292	280
Annapolis Valley Regional School Board	254	496
Cape Breton District Health Authority	925	901
Cape Breton Victoria Regional School Board	394	270
Capital District Health Authority	4,939	4,542
Chignecto-Central Regional School Board	1,268	1,066
Colchester East Hants Health Authority	190	185
Conseil Scolaire Acadien Provincial	57	130
Cumberland Health Authority	134	121
Guysborough Antigonish-Strait Health Authority	257	241
Halifax Regional School Board	1,957	3,120
Izaak Walton Killam Health Centre	1,310	546
Nova Scotia Business Incorporated	65	75
Nova Scotia Government Fund Limited	451	750
Nova Scotia Housing Development Corporation	30,676	30,943
Nova Scotia Legal Aid	121	108
Nova Scotia Municipal Finance Corporation	3,285	4,781
Pictou County Health Authority	228	210
Resource Recovery Fund Board	7	8
South Shore District Health Authority	228	220
South Shore Regional School Board	69	—
South West Nova District Health Authority	330	322
Southwest Regional School Board	68	365
Strait Regional School Board	338	273
Tri-County Regional School Board	64	—
Waterfront Development Corporation Limited	179	234
	1,067,090	1,072,890
<b>Total Net Expenses</b>	6,778,880	6,360,416



**SCHEDULE 3**

**LOANS AND INVESTMENTS**

as at March 31, 2005

(\$ thousands)

	Loans and Investments	Provisions	Net 2005	Net 2004
<b>Loans of the Consolidated Fund:</b>				
Agriculture and Rural Credit Act	174,788	8,032	166,756	168,369
Fisheries Development Act	82,271	1,319	80,952	71,101
Housing Development Corporation Act	49,126	17,657	31,469	30,194
Industrial Development Act	69,775	31,639	38,136	23,219
Venture Corporations Act	809	809	—	—
Loans to Municipalities:				
Municipal Loan and Building Fund Act	655	—	655	793
Special Reserve Fund – Municipal Loan and Building Fund	—	—	—	2
Halifax-Dartmouth Bridge Commission	19,000	—	19,000	23,000
Miscellaneous	709	—	709	709
	<u>397,133</u>	<u>59,456</u>	<u>337,677</u>	<u>317,387</u>
<b>Loans of Governmental Units:</b>				
Nova Scotia Business Incorporated	152,814	48,729	104,085	110,650
Nova Scotia Innovation Corporation	178	—	178	24
Nova Scotia Municipal Finance Corporation	589,748	—	589,748	492,003
Other Government Units	146	—	146	122
	<u>742,886</u>	<u>48,729</u>	<u>694,157</u>	<u>602,799</u>
<b>Total Loans</b>	<b>1,140,019</b>	<b>108,185</b>	<b>1,031,834</b>	<b>920,186</b>
<b>Investments of the Consolidated Fund:</b>				
Housing Development Corporation Act	2,421	2,421	—	4,838
Industrial Development Act	6,632	2,285	4,347	5,344
	<u>9,053</u>	<u>4,706</u>	<u>4,347</u>	<u>10,182</u>
<b>Investments of Governmental Units:</b>				
Art Gallery of Nova Scotia	2,011	—	2,011	2,032
Insured Prescription Drug Plan	3,192	—	3,192	5,392
Nova Scotia Business Incorporated	18,450	7,958	10,492	9,800
Nova Scotia Innovation Corporation	18,038	—	18,038	17,520
	<u>41,691</u>	<u>7,958</u>	<u>33,733</u>	<u>34,744</u>
<b>Total Investments</b>	<b>50,744</b>	<b>12,664</b>	<b>38,080</b>	<b>44,926</b>
<b>Total Loans and Investments</b>	<b>1,190,763</b>	<b>120,849</b>	<b>1,069,914</b>	<b>965,112</b>

The Provisions listed above include amounts for possible guarantee payouts related to the Industrial Development Act \$300 (2004 – \$766), the Housing Development Corporation Act \$8,181 (2004 – \$10,006) and Nova Scotia Business Incorporated \$2,077 (2004 – \$1,990).

Also included in Provisions for the Housing Development Corporation Act is \$3,200 (2004 – \$3,200) for interest fluctuations.

**Schedules to the Consolidated Financial Statements**

**SCHEDULE 4**

**UNMATURED DEBT**

as at March 31, 2005

(\$ thousands)

	2005			2004
	Gross Debt	Sinking Funds and Defeasance Assets	Net Debt	Net Debt
<b>Governmental Units</b>				
Consolidated Fund	12,461,580	2,599,397	9,862,183	10,696,764
Nova Scotia Government Fund Limited	10,250	—	10,250	21,500
Nova Scotia Housing Development Corporation	297,170	—	297,170	309,465
Nova Scotia Municipal Finance Corporation	35,216	—	35,216	54,987
Nova Scotia Power Finance Corporation	1,062,880	1,062,880	—	—
Waterfront Development Corporation Limited	4,200	—	4,200	4,600
Other	551	—	551	730
<b>Unmatured Debt of Governmental Units</b>	13,871,847	3,662,277	10,209,570	11,088,046
<b>Government Business Enterprises</b>				
Halifax-Dartmouth Bridge Commission	113,379	31,456	81,923	97,635
Highway 104 Western Alignment Corporation	83,682	—	83,682	82,853
Nova Scotia Gaming Corporation	81,501	—	81,501	101,670
Nova Scotia Liquor Corporation	6,693	—	6,693	7,250
<b>Unmatured Debt of Government Business Enterprises</b>	285,255	31,456	253,799	289,408
<b>Total Unmatured Debt</b>	14,157,102	3,693,733	10,463,369	11,377,454

**Notes:**

All debt is presented in Canadian dollar equivalents and after giving effect to currency swap contracts itemized in Note 5.

The current and long-term portions of unmaturred debt of Governmental Units are shown on the Consolidated Statement of Financial Position with reference to this schedule. Debt of Government Business Enterprises is reflected in the Deficiency in Government Business Enterprises and in further detail in Schedule 6.

All foreign debt is hedged to Canadian dollars with the exception of \$1,771.4 million US\$ denominated debt. A one cent change in the CDN/US\$ foreign exchange rate as of March 31, 2005 would result in a change in long-term debt, and a foreign exchange gain or loss, of \$17.7 million. This hypothetical foreign exchange gain or loss would be amortized starting in 2006. The change in debt service costs for the 2006 fiscal year would be approximately \$1.3 million due to this foreign exchange gain or loss amortization.

As of March 31, 2005, the Consolidated Fund held Sinking Funds and Public Debt Retirement Funds of \$2,599.4 million. These funds were comprised of \$2,015.8 million in Canadian assets and \$583.6 million in US assets (US \$472.8 million converted to CDN\$ based on the underlying securities' effective foreign exchange rates). Total market value of both funds is \$2,788.8 million at year end. During the year, contributions were \$75.1 million, total earnings were \$143.2 million and redemptions were \$500.0 million.



**SCHEDULE 4**

**UNMATURED DEBT (CONTINUED)**

as at March 31, 2005

(\$ thousands)

Sinking fund assets are recorded at cost, which include premiums and discounts associated with the purchase of these investments. These premiums and discounts are amortized on a straight-line basis over the term of the related investment. The unamortized portion of the premiums and discounts are included as part of the value of the sinking funds. As at March 31, 2005, the unamortized net premium was \$66.2 million.

Assets consist primarily of debentures of the Provinces and Government of Canada with fixed interest rates ranging from 3.55% to 11.25% for Canadian funds and 4.25% to 9.50% for US funds. For designated sinking funds, payments normally commence on the first anniversary date of the issue of the debenture and are designed to retire the debt over a 20-year period, unless the term of the issue is longer. At year end, the Province held \$1,312.7 million worth of its own debentures (gross value of \$1,308.5 million) in Sinking Funds and Public Debt Retirement Funds as active investments. These were comprised of \$721.5 million in Canadian assets and \$591.2 million in US assets.

As per the Nova Scotia Power Corporation Privatization Agreement, Nova Scotia Power Finance Corporation provides for defeasance of its debt. The portfolio of defeasance assets consists of Nova Scotia Power Corporation, other Provincial Governments and utilities, Federal US bonds, coupons or residuals. This debt is shown net of defeasance assets on the Statement of Financial Position.

**Projected Payments**

(\$ thousands)

	Governmental Units						Government Business Enterprises	Total	
	By Major Currency (CDN Equivalent)						Total Payments		
	Net Principal Repayments			Sinking Fund Requirements					
CDN	US	Total	CDN	US	Total				
2006	1,413,679	—	1,413,679	18,788	35,294	54,082	1,467,761	56,147	1,523,908
2007	1,189,018	—	1,189,018	11,209	35,294	46,503	1,235,521	19,582	1,255,103
2008	655,935	—	655,935	11,209	35,294	46,503	702,438	89,857	792,295
2009	309,670	—	309,670	11,209	35,294	46,503	356,173	7,264	363,437
2010	694,877	—	694,877	11,209	35,294	46,503	741,380	7,743	749,123
2011 & thereafter	5,727,146	1,139,642	6,866,788	115,837	254,672	370,509	7,237,297	73,206	7,310,503
	9,990,325	1,139,642	11,129,967	179,461	431,142	610,603	11,740,570	253,799	11,994,369

Net principal repayments are comprised of the principal amount due less available designated sinking funds to retire the debenture.

In addition, the Province has approximately \$1,531.0 million in unrestricted sinking funds that can be used towards the retirement of any unmatured debt. The use of these funds is evaluated each year based on a detailed analysis of cash requirements.

**Schedules to the Consolidated Financial Statements**

**SCHEDULE 5**

**GROSS LONG-TERM DEBT**

as at March 31, 2005

(\$ thousands)

	Foreign Exchange Rate	CDN \$ Amount	Maturity Dates	Interest Rates
<b>Governmental Units:</b>				
		<u>Debentures</u>		
Consolidated Fund				
Consolidated Fund (CDN\$)		9,814,082	2005 to 2033	4.7% to 15.998%
Consolidated Fund (US \$1,771,443)	1.2096	2,142,737	2013 to 2022	7.25% to 9.5%
Consolidated Fund (UK)	2.2848	—	2011 to 2019	11.75% to 16.75%
Consolidated Fund (Euro)	1.5689	—	2007 to 2010	4.475%
Nova Scotia Municipal Finance Corporation		35,216	2005 to 2015	1.0% to 12.5%
Nova Scotia Power Finance Corporation				
Nova Scotia Power Finance Corporation (CDN\$)		700,000	2012 to 2031	10.25% to 11.25%
Nova Scotia Power Finance Corporation (US\$ 300,000)	1.2096	362,880	2021	9.4%
<b>Total – Debentures</b>		<b>13,054,915</b>		
		<u>Loans</u>		
Consolidated Fund – Other Debt		70,994	2006 to 2011	7% to 8.375%
Nova Scotia Government Fund Limited		10,250	indefinitely	1%
Nova Scotia Housing Development Corporation		297,170	2004 to 2034	4.0% to 21.5%
Waterfront Development Corporation		4,200	Demand Loan	bank prime less 0.95%
Other		89		
<b>Total – Loans</b>		<b>382,703</b>		
		<u>Capital Leases</u>		
Consolidated Fund		433,767	2005 to 2027	4.5% to 11%
Other		462		
<b>Total – Capital Leases</b>		<b>434,229</b>		
<b>Total – Long-term Debt of Governmental Units</b>		<b>13,871,847</b>		



**SCHEDULE 5**

**GROSS LONG-TERM DEBT (CONTINUED)**

as at March 31, 2005

(\$ thousands)

	CDN \$ Amount	Maturity Dates	Interest Rates
<b>Government Business Enterprises:</b>			
<u>Debentures</u>			
Halifax-Dartmouth Bridge Commission	94,379	2007	5.95%
Highway 104 Western Alignment Corporation	83,682	2011 to 2026	10.13% to 10.76%
<u>Loans</u>			
Halifax-Dartmouth Bridge Commission	19,000	2007	floating (line of credit)
Nova Scotia Gaming Corporation	29,359	2007	floating (line of credit)
<u>Capital Leases</u>			
Nova Scotia Gaming Corporation	52,142	2005 to 2008	12%
Nova Scotia Liquor Corporation	6,693	2012	13.8%
<hr/>			
<b>Total – Long-term Debt of Government</b>			
<b>Business Enterprises</b>	<b>285,255</b>		
<hr/>			
<b>Total Gross Long-term Debt</b>	<b>14,157,102</b>		

**Call, Redemption and Other Features:**

**Consolidated Fund**

Canadian debentures include the following redeemable issues:

- \$1,079.4 million in CPP debentures which are redeemable in whole or in part before maturity, on six months notice, at the option of the Minister of Finance of Canada;
- \$150 million, redeemable in whole or in part, on 30 days notice on July 3, 2005, or on any interest payment date thereafter, at the option of the Province;
- \$150 million, redeemable in whole or in part, on 30 days notice on December 12, 2005, or on any interest payment date thereafter, at the option of the Province;
- \$95 million in medium-term promissory notes, redeemable in whole but not in part, on the initial redemption date and on each redemption date thereafter, on 15 days notice, at the option of the Province.

The interest rates shown for the Canadian and US debentures reflect the fixed rates only. There are debentures that have floating and step-up rates. Floating interest rates are adjusted on either a monthly or quarterly basis. Step-up rates are adjusted per the individual promissory note step-up schedules.

**Housing Development Corporation**

Mortgages and notes payable are secured by an assignment of mortgages receivable and investments in social housing.

**Highway 104 Western Alignment Corporation**

In relation to its senior toll bonds, the Corporation has provided an assignment of all the present and future property and assets, including rights to operate the facility, and a security interest in the Debt Service Reserve Account and the Major Maintenance Reserve Account.

In relation to its junior toll bonds, the Corporation has assigned a second charge security interest in all security pledged to the senior toll revenue bondholders.

**Halifax-Dartmouth Bridge Commission**

The Commission's toll bonds are secured by an assignment of the Commission; subject to the prior payment of operating and maintenance expenses, and the maintenance of certain reserve funds by the Commission.

**Schedules to the Consolidated Financial Statements**

**SCHEDULE 6**

**GOVERNMENT BUSINESS ENTERPRISES**

as at March 31, 2005

(\$ thousands)

	2005				2004	
	Halifax-Dartmouth Bridge Commission	Highway 104 Western Alignment Corporation	Nova Scotia Gaming Corporation	Nova Scotia Liquor Corporation	Total	Total (as restated)
Cash	6,845	553	16,281	9,527	33,206	40,408
Accounts Receivable	225	107	—	3,080	3,412	1,900
Inventory	—	6	1,662	33,338	35,006	33,097
Tangible Capital Assets	69,922	106,914	112,118	19,211	308,165	319,614
Other Assets	36,444	27,016	4,305	898	68,663	59,883
<b>Total Assets</b>	<b>113,436</b>	<b>134,596</b>	<b>134,366</b>	<b>66,054</b>	<b>448,452</b>	<b>454,902</b>
Accounts Payable	1,573	306	1,420	43,612	46,911	35,598
Long-term Debt	113,379	83,682	81,501	6,693	285,255	314,773
Other Liabilities	4,614	48,413	51,445	15,749	120,221	117,908
<b>Total – Liabilities</b>	<b>119,566</b>	<b>132,401</b>	<b>134,366</b>	<b>66,054</b>	<b>452,387</b>	<b>468,279</b>
<b>Equity (Deficit)</b>	<b>(6,130)</b>	<b>2,195</b>	<b>—</b>	<b>—</b>	<b>(3,935)</b>	<b>(13,377)</b>
<b>Total Liabilities and Equity (Deficit)</b>	<b>113,436</b>	<b>134,596</b>	<b>134,366</b>	<b>66,054</b>	<b>448,452</b>	<b>454,902</b>
<b>Revenue</b>	<b>24,784</b>	<b>17,666</b>	<b>495,107</b>	<b>455,789</b>	<b>993,346</b>	<b>967,394</b>
Expenses	11,967	5,327	319,744	283,801	620,839	608,893
Debt Servicing	7,197	8,517	5,332	1,954	23,000	25,159
<b>Total – Expenses</b>	<b>19,164</b>	<b>13,844</b>	<b>325,076</b>	<b>285,755</b>	<b>643,839</b>	<b>634,052</b>
<b>Net Income (Loss)</b>	<b>5,620</b>	<b>3,822</b>	<b>170,031</b>	<b>170,034</b>	<b>349,507</b>	<b>333,342</b>

**Notes:**

The year end for Halifax-Dartmouth Bridge Commission is December 31. The year end of the other three corporations is March 31.





**SCHEDULE 6**

**GOVERNMENT BUSINESS ENTERPRISES (CONTINUED)**  
as at March 31, 2005

**Halifax-Dartmouth Bridge Commission**

The Commission is incorporated by Special Statute of the Province of Nova Scotia. The purpose of the Commission is to construct, maintain and operate bridges and their necessary approaches across the Halifax Harbour, between the communities of Halifax and Dartmouth, and across the North West Arm. Bridge tolls are regulated by the Nova Scotia Utility and Review Board, a provincially controlled public sector entity. The Commission's fiscal year end is December 31. At March 31, 2005, the Commission owed \$19 million (2004 – \$23 million) to the Province's Consolidated Fund for a revolving line of credit. The Commission records depreciation on bridge assets, buildings and electronic transponders using the straight-line method and uses the declining balance method for all other assets. Included in other assets at December 31, 2004 is a reserve fund in the amount of \$33.5 million, (2003 – \$27.1 million), \$31.4 million (2003 – \$25.4 million) of which is restricted for repayment of principal, interest and fees on Toll Revenue Bonds as established under the terms of the trust indenture.

**Highway 104 Western Alignment Corporation**

The Corporation has been established to finance, design, construct, operate and maintain a 45 km stretch of highway between Masstown and Thompson Station in the counties of Colchester and Cumberland, Nova Scotia. The Province of Nova Scotia retains ownership of the highway. The Corporation is granted the right to operate the highway and collect tolls for a 30-year period, pursuant to an agreement dated April 1, 1996, after which time the right will revert to the Province. In addition, the Corporation has entered into an operating agreement with Atlantic Highways Management Corporation whereby compensation is based on the annual operating budget plus a variable fee. The Corporation's fiscal year end is March 31. The Corporation records depreciation using the sinking fund method. Restricted assets, consisting of short-term investments in the amount of \$26.2 million (2004 – \$20.0 million), are included in other assets. These reserve accounts were established in accordance with trust indenture agreements between the Corporation and bondholders.

The Province of Nova Scotia contributed \$55.0 million toward the construction of the highway, one-half of which was recovered from the Federal Government under the Canada-Nova Scotia Strategic Highway Improvement Program. There were no contributions in the current or previous year.

**SCHEDULE 6**

**GOVERNMENT BUSINESS ENTERPRISES (CONTINUED)**

as at March 31, 2005

**Nova Scotia Gaming Corporation**

The Corporation was incorporated on February 15, 1995 by Chapter 4 of the Acts of 1994-95, the Gaming Control Act. The purpose of the Corporation is to develop, undertake, conduct and manage casinos and other lottery business on behalf of the Province. The Corporation's fiscal year end is March 31.

The revenues of the Corporation are derived from two casinos, located in Halifax and Sydney, and ticket and video lottery sales. The net balance owing to the Province at March 31, 2005 was \$32.0 million (2004 – \$23.5 million).

The Corporation is required to reimburse the operator of the casinos for approved development costs of the Halifax and Sydney casinos. The net present value of the remaining obligations for the casinos is approximately \$52.1 million (2004 – \$65.5 million).

Unclaimed prizes are retained by the Corporation in a prize fund for one year from the announced beginning date of the draw. At March 31, 2005, this amounted to \$2.2 million (2004 – \$5.1 million).

Video Lottery Terminal (VLT) retailers in Nova Scotia have agreed, under the terms of their agreements with Atlantic Lottery Corporation Inc., to contribute 1% of their VLT commission to the Nova Scotia Gaming Foundation. The Corporation has agreed to contribute an amount equal to all contributions made by the VLT retailers.

The Corporation has agreed to an annual contribution from the Casinos of \$1 million to the Department of Health to provide funds for programs related to problem gambling. In addition, the Corporation will contribute \$3 million to the Department of Health to assist with the new Gaming Strategy Policy. The Corporation will provide up to \$0.8 million (2005 – \$0.8 million) in funds in fiscal 2006 for the harness racing industry in Nova Scotia.

**Nova Scotia Liquor Corporation**

The Corporation derives its mandate from the Liquor Control Act, Chapter 260 of the Revised Statutes of Nova Scotia, 1989. The Corporation operates retail sales locations across the province. Its fiscal year end is March 31. The net balance owing to the Province at March 31, 2005 was \$16.8 million (2004 – \$3.9 million).



**SCHEDULE 7**

**TANGIBLE CAPITAL ASSETS**

as at March 31, 2005

(\$ thousands)

	2005						2004		
	Land	Buildings and Land Improvements	Machinery, Computers and Equipment	Ferries	Vehicles	Capital Leases	Roads, Bridges and Highways	Social Housing	Total
<b>Cost</b>									
Opening Costs	533,666	2,147,020	732,055	13,416	49,669	520,285	524,282	363,789	4,884,182
Additions	5,876	1,54,180	65,990	—	6,841	5,108	105,080	—	343,075
Annual Adjustment to Social Housing Disposals	—	—	—	—	—	—	—	(11,807)	(11,807)
	(109)	(3,348)	(14,338)	—	(342)	(4,106)	—	(2,055)	(24,298)
<b>Closing Costs</b>	<b>539,433</b>	<b>2,297,852</b>	<b>783,707</b>	<b>13,416</b>	<b>56,168</b>	<b>521,287</b>	<b>629,362</b>	<b>349,927</b>	<b>5,191,152</b>
<b>Accumulated Amortization</b>									
Opening Accumulated Amortization	—	(888,995)	(517,814)	(8,837)	(33,490)	(126,915)	(244,103)	—	(1,820,154)
Disposals	—	2,203	13,386	—	19	3,873	—	—	19,481
Amortization Expense	—	(57,505)	(56,580)	(687)	(4,673)	(29,643)	(34,561)	—	(183,649)
<b>Closing Accumulated Amortization</b>	<b>—</b>	<b>(944,297)</b>	<b>(561,008)</b>	<b>(9,524)</b>	<b>(38,144)</b>	<b>(152,685)</b>	<b>(278,664)</b>	<b>—</b>	<b>(1,984,322)</b>
<b>Net Book Value</b>	<b>539,433</b>	<b>1,353,555</b>	<b>222,699</b>	<b>3,892</b>	<b>18,024</b>	<b>368,602</b>	<b>350,698</b>	<b>349,927</b>	<b>3,206,830</b>
<b>Opening Balance</b>	<b>533,666</b>	<b>1,258,025</b>	<b>214,241</b>	<b>4,579</b>	<b>16,179</b>	<b>393,370</b>	<b>280,179</b>	<b>363,789</b>	<b>3,064,028</b>
<b>Closing Balance</b>	<b>539,433</b>	<b>1,353,555</b>	<b>222,699</b>	<b>3,892</b>	<b>18,024</b>	<b>368,602</b>	<b>350,698</b>	<b>349,927</b>	<b>3,206,830</b>
<b>Increase (Decrease) in Net Book Value</b>	<b>5,767</b>	<b>95,530</b>	<b>8,458</b>	<b>(687)</b>	<b>1,845</b>	<b>(24,768)</b>	<b>70,519</b>	<b>(13,862)</b>	<b>142,802</b>
									<b>143,992</b>

**Notes to Schedule 7:**

Amortization is calculated on a declining balance basis for assets of the Consolidated Fund. The amortization percentages of the more common tangible capital assets are: buildings (5%); machinery, computers and equipment (15–50%); ferries (15%); vehicles (20–35%); and roads, bridges and highways (5–15%). Capital leases are amortized on a straight-line basis over the length of each lease.

Amortization is generally calculated on a straight-line basis for assets of entities consolidated with the Consolidated Fund. The estimated useful lives of the more common tangible capital assets are: buildings (including leasehold improvements) and land improvements (2–50 years); machinery, computers and equipment (3–50 years); and vehicles (3 years). Capital leases are amortized on a straight-line basis, generally over a 5 to 20 year term.

Social Housing assets relate to the Housing Development Corporation. This entity does not track accumulated amortization separately so the closing cost of these assets is the net carrying value of the assets. Social Housing assets are amortized using the sinking fund method.

Included in the closing costs of the various classes as of March 31, 2005, are costs for assets under construction, which have not yet been amortized.

These costs (\$ thousands) are buildings – \$81,077; machinery, computers and equipment – \$16,290; vehicles – \$72; capital leases – \$903; and roads, bridges and highways – \$46,546.

Included in Capital Leases are buildings – cost \$470,514, accumulated amortization (\$123,074); machinery, computers and equipment – cost \$37,837, accumulated amortization (\$24,475); and vehicles – cost \$12,936, accumulated amortization (\$5,136).



**SCHEDULE 8**

**DIRECT GUARANTEES**

as at March 31, 2005

(\$ thousands)

	Authorized 2005	Utilized 2005	Utilized 2004
<b>Bank Loans:</b>			
Nova Scotia Business Incorporated	2,900	2,823	2,605
Industrial Development Act	114,095	77,959	130,846
Nova Scotia Fisheries and Aquaculture Loan Board	—	—	213
Department of Education – Student Loan Program	141,020	141,020	119,104
<b>Total – Bank Loan Guarantees</b>	<b>258,015</b>	<b>221,802</b>	<b>252,768</b>
<b>Promissory Notes:</b>			
3052155 Nova Scotia Limited to Canada-Nova Scotia Offshore Petroleum Board	17,500	17,500	17,500
<b>Total – Promissory Note Guarantees</b>	<b>17,500</b>	<b>17,500</b>	<b>17,500</b>
<b>Mortgages:</b>			
Housing Development Corporation Act	14,183	14,183	14,838
Housing Development Corporation Act – CMHC Indemnities	150,349	150,349	162,036
Provincial Finance Act	269	269	346
<b>Total – Mortgage Guarantees</b>	<b>164,801</b>	<b>164,801</b>	<b>177,220</b>
<b>Other Guarantees:</b>			
Aliant Telecom MASH Sector	753	487	—
Nova Scotia Government Fund	8,900	8,900	15,300
Sydney Steel Corporation – Performance bonds (Includes US\$ component \$122,228)	183	183	520
Trade Centre Limited	—	—	400
<b>Total – Other Guarantees</b>	<b>9,836</b>	<b>9,570</b>	<b>16,220</b>
<b>Total – Direct Guarantees</b>	<b>450,152</b>	<b>413,673</b>	<b>463,708</b>
<b>Less Provision for Guarantee Payout:</b>			
Industrial Development Act		(300)	(766)
Nova Scotia Business Incorporated		(2,077)	(1,990)
Department of Education – Student Loan Program		(21,100)	(21,400)
Housing Development Corporation Act		(8,181)	(10,006)
3052155 Nova Scotia Limited		(17,500)	(9,100)
		(49,158)	(43,262)
<b>Less Provision for Debt Reduction Program:</b>			
Department of Education – Student Loan Program		(9,649)	(5,600)
		(9,649)	(5,600)
<b>Net Direct Guarantees not provided for in these statements</b>		<b>354,866</b>	<b>414,846</b>

**SCHEDULE 9**

**GOVERNMENT REPORTING ENTITY**

as at March 31, 2005

Listed below are the governmental units, government business enterprises and government partnership arrangements that comprise the government reporting entity.

**Governmental Units**

*(Consolidation Method)*

Acadia Coal Company Limited Fund	Nova Scotia Crop and Livestock Insurance Commission
AgraPoint International Inc.	Nova Scotia E911 Cost Recovery Fund
AgriTECH Park Inc.	Nova Scotia Environmental Trust
Annapolis Valley District Health Authority	Nova Scotia Farm Loan Board
Annapolis Valley Regional School Board	Nova Scotia Film Development Corporation
Art Gallery of Nova Scotia	Nova Scotia Fisheries and Aquaculture Loan Board
Bioscience Enterprise Centre Incorporated	Nova Scotia Gaming Foundation
CIDC Ghana/Africa Project	Nova Scotia Government Acadian Bursary Program Fund
Cape Breton District Health Authority	Nova Scotia Government Fund Limited
Cape Breton Victoria Regional School Board	Nova Scotia Harness Racing Incorporated
Capital District Health Authority	Nova Scotia Health Research Foundation
Check Inns Limited (inactive)	Nova Scotia Housing Development Corporation
Chignecto-Central Regional School Board	Annapolis Valley Housing Authority
Coal Research Agreement Fund	Cape Breton Island Housing Authority
Colchester East Hants Health Authority	Cobequid Housing Authority
Conseil Scolaire Acadien Provincial	Eastern Mainland Housing Authority
Consolidated Fund (1)	Metropolitan Regional Housing Authority
CorFor Capital Repairs and Replacements Fund	South Shore Housing Authority
Crown Land Mine Remediation Fund	Tri-County Housing Authority
Crown Land Silviculture Fund	Nova Scotia Hurricane Juan Recovery Fund
Cumberland Health Authority	Nova Scotia Innovation Corporation
Debt Retirement Fund	1402998 Nova Scotia Limited
Gaming Addiction Treatment Trust Fund	3839966 Canada Limited (86% ownership)
Guysborough Antigonish-Strait Health Authority	Nova Scotia Legal Aid Commission
Habitat Conservation Fund	Nova Scotia Market Development Initiative Fund
Halifax Regional School Board	Nova Scotia Municipal Finance Corporation
Industrial Expansion Fund	Nova Scotia Power Finance Corporation
Insured Prescription Drug Plan Trust Fund	Nova Scotia Primary Forest Products Marketing Board
Izaak Walton Killam Health Centre	Nova Scotia School Boards Association (2)
Law Reform Commission	Nova Scotia School Insurance Exchange (3)
Mainstream 1992 Fund	Nova Scotia School Insurance Program Association (3)
Muggah Creek Remediation Fund	Nova Scotia Utility and Review Board
Nova Scotia Arts Council (inactive)	P3 Schools Capital and Technology Refresh Fund (4)
Nova Scotia Blueberry Institute Fund	
Nova Scotia Business Incorporated	
Nova Scotia Community College	
Nova Scotia Community College Foundation	
Nova Scotia Coordinate Referencing System Trust Fund	

(1) – Includes all departments and public service units of the Nova Scotia Provincial Government.

(2) – Entity is a partnership controlled by the eight school boards.

(3) – Entity is a partnership controlled by the eight school boards and the Community College.

(4) – This includes all refresh funds related to P3 schools.



SCHEDULE 9

**GOVERNMENT REPORTING ENTITY (CONTINUED)**

as at March 31, 2005

**Governmental Units**

*(Consolidation Method)*

Partnership Trust Fund  
Pengrowth Nova Scotia Energy Scholarship  
Pictou County Health Authority  
Provincial Drug Distribution Program  
Public Archives of Nova Scotia  
Public Debt Retirement Fund  
Resource Recovery Fund Board Incorporated  
    Novapet Inc (60.8% ownership)  
Rockingham Terminal Incorporated (inactive)  
Scotia Benefit Fund  
Sherbrooke Restoration Commission  
South Shore District Health Authority  
South Shore Regional School Board  
South West Nova District Health Authority  
Southwest Regional School Board  
    (split into two Aug/04)  
Species-at-risk Conservation Fund  
Strait Regional School Board  
Sustainable Forestry Fund  
Sydney Environmental Resources Limited  
Sydney Steel Corporation  
Sydney Tar Ponds Agency  
Sysco Decommissioning Fund  
Trade Centre Limited  
    Maritime Fall Fair Association  
Tri-County Regional School Board  
Upper Clements Family Theme Park Limited  
Waterfront Development Corporation Limited  
3052155 Nova Scotia Limited

**Government Business Enterprises**

*(Modified Equity Method)*

Halifax-Dartmouth Bridge Commission  
Highway 104 Western Alignment Corporation  
Nova Scotia Gaming Corporation  
    Atlantic Lottery Corporation (25% ownership)  
    Interprovincial Lottery Corporation  
    (10% ownership)  
Nova Scotia Liquor Corporation

**Government Partnership Arrangements**

*(Proportionate Consolidation Method)*

Atlantic Provinces Special Education Authority  
    (approximately 55% share)  
Canada-Nova Scotia Offshore Petroleum Board  
    (50% share)  
Canadian Blood Services  
    (approximately 4% share)  
    CBS Foundation  
Canadian Sports Centre Atlantic  
    (approximately 8% share)  
Council of Atlantic Premiers  
    (approximately 45% share)

**PROVINCE OF NOVA SCOTIA**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

March 31, 2005

**1. FINANCIAL REPORTING AND ACCOUNTING POLICIES**

These financial statements are prepared in accordance with Canadian generally accepted accounting principles for the public sector, that for purposes of the Province's financial statements are represented by accounting recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA), supplemented where appropriate by other CICA and International Federation of Accountants accounting standards or pronouncements.

These consolidated financial statements have been prepared using the following significant accounting policies:

**a) The Government Reporting Entity**

The Government Reporting Entity is comprised of the Consolidated Fund, other Governmental Units, Government Business Enterprises and Government Partnership Arrangements. Governmental Units and Government Business Enterprises represent the entities that are controlled by the government. Control is defined as the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization's activities. Control exists regardless of whether the government chooses not to exercise its power to govern so long as it has the ability to govern. Control must exist at the financial statement date, without the need to amend legislation or agreements. Government Partnership Arrangements represent entities for which decision making and significant risks and benefits are shared with other parties outside of the Government Reporting Entity.

Trusts administered by the Province are excluded from the reporting entity and are disclosed separately on the Statement of Financial Position for information purposes only.

**b) Principles of Consolidation**

A Governmental Unit is a government organization that is not a Government Business Enterprise. Governmental Units include government departments, public service votes, funds, agencies, service organizations, boards, government not-for-profit organizations and government business-type organizations. The accounts of Governmental Units are consolidated on a line-by-line basis after adjusting the accounting policies to be consistent with those described in Note 1 (c), with the exception of Tangible Capital Assets. Significant inter-organization accounts and transactions are eliminated.

A Government Business Enterprise is a self-sustaining organization that has the financial and operating authority to sell goods and services to individuals and non-government organizations as its principal activity and source of revenue. Government Business Enterprises have been accounted for on the modified equity basis which does not require any accounting policy adjustments. The net equity of the Government Business Enterprises is included in the Statement of Financial Position. The net income is shown as a separate item in the Statement of Operations.

A Government Partnership is a contractual arrangement between the government and a party or parties outside the reporting entity. The partners have significant clearly defined common goals, make a financial investment in the partnership, share control of decision making, and share, on





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an equitable basis, the significant risks and benefits associated with the operations of the government partnership. Where significant, the government's interest in partnerships is accounted for on the proportionate consolidation method.

A complete listing of the organizations within the Government Reporting Entity is provided in Schedule 9.

Financial results from fiscal year end to March 31, 2005, for Government Business Enterprises whose fiscal year ends are not March 31, were not significant to these consolidated financial statements so they have not been adjusted.

### c) Significant Accounting Policies

#### Revenues

Revenues are recorded on the accrual basis. The main components of revenue are interest, various taxes and legislated levies. Revenues from Personal and Corporate Income Taxes, Harmonized Sales Taxes, and the Canada Health Transfer (CHT) and Canada Social Transfer (CST) are accrued in the year earned based upon estimates using statistical models. These revenues are recorded at the net amount estimated, after considering adjustments for tax credits and administrative costs related to the collection and processing performed by the federal government.

#### Net Expenses

Net expenses are recorded on the accrual basis and include the cost of supply inventories purchased during the year by the Consolidated Fund. Net expenses include recoveries and fees that are directly related to the expenses and are not normally considered to be revenues. Recoveries and fees may include insignificant amounts from Governmental Units. Gross expenses, before the impact of recoveries, are reported in Note 9 – Net Expenses By Object. Grants are recognized in the period during which both payment is authorized and any eligibility criteria are met. Provisions are made for probable losses on certain loans, investments, loan guarantees, accounts receivable, advances, forgivable loans and for contingent liabilities when it is likely that a liability exists and the amount can be reasonably determined. These provisions are updated as estimates are revised, at least annually.

#### Financial Assets

Cash and Short-term Investments are recorded at cost which approximates market value. Investments are R-1 (low, mid, high) rated federal and provincial government bills or promissory notes, bankers' acceptances, term deposits and commercial paper. Terms of investments are generally 1 to 90 days. The average interest rate is 2.5% at year end.

Accounts Receivable and Advances are recorded at the principal amount less valuation allowances.

Inventories for Resale are held for sale in the ordinary course of operations and are recorded at the lower of cost and net realizable value.

Loans are recorded at cost less adjustments for concessionary assistance and any prolonged impairment in value. Concessionary assistance consists of subsidies provided by the Province and is recognized as an expense at the date of issuance of the loan. Any loan write offs must be approved by the Governor-in-Council. Loans usually bear interest at approximate market rates and normally have fixed repayment schedules.

## Notes to the Consolidated Financial Statements

Investments are recorded at cost less adjustments for concessionary assistance and any prolonged impairment in value. Concessionary assistance consists of subsidies provided by the Province and is recognized as an expense at the date of issuance of the investment. Any write-down of an Investment to reflect a loss in value is not reversed if there is a subsequent increase in value.

### Liabilities

Bank Advances and Short-term Borrowings have initial maturities of one year or less and are recorded at cost which approximates market value. Short-term Borrowings had a weighted average interest rate of 2.53% at year-end on Canadian dollar borrowings.

Unmatured Debt consists of debentures and various loans in Canadian and foreign currencies and capital leases. Debt is recorded at par, net of sinking funds (including public debt management funds).

Sinking Fund and Public Debt Retirement Fund investments are recorded at cost and consist primarily of debentures of the Province of Nova Scotia, other provincial governments and the Government of Canada. Premiums and discounts on sinking funds are deferred and amortized over the life of the investment. Amortization and realized gains and losses for premiums and discounts relating to sinking fund balances and installments are netted against sinking fund earnings.

Unamortized Foreign Exchange Translation Gains and Losses result when debentures payable in foreign currencies and sinking funds invested in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at March 31. Foreign exchange gains and losses on the translation of foreign currency are amortized on a straight-line basis over the remaining term of the related monetary issue.

Premiums and discounts, as well as underwriting commissions relating to the issuance of debentures, are deferred and amortized over the term of the related debt. Amortization and realized foreign exchange gains and losses, premiums and discounts relating to debt balances, serial retirements, sinking fund balances and installments are charged to debt servicing costs.

Pension, Retirement and Other Obligations include various employee future benefit plans. Pension liabilities for defined benefit plans are calculated using the projected benefit actuarial method using accounting assumptions that reflect the Province's best estimates of performance over the long-term. The projected benefit actuarial method attributes the estimated cost of retirement benefits to the periods of employee service. The net pension liability represents accrued pension benefits less the market related value of pension assets (if applicable) and the balance of unamortized experience gains and losses. The market related values are determined in a rational and systematic manner so as to recognize asset market value gains and losses over a five-year period. The pension benefit plan for the majority of health sector employees is offered by a multi-employer plan administrator and is not sponsored by the Province. Employer contributions to this plan are expensed in the period paid. The accrued benefit asset (liability) of this plan is not recognized in these financial statements.

### Net Direct Debt

Net Direct Debt represents the direct liabilities of the Province less financial assets and unamortized foreign exchange translation gains and losses and premiums and discounts on outstanding debenture issues.



### **Non-Financial Assets**

Tangible Capital Assets have useful lives extending beyond the accounting period, are held for use in the production and supply of goods and services and are not intended for sale in the ordinary course of operations. Tangible capital assets are recorded at net historical cost (or estimated cost when the actual cost is unknown) and include all costs directly attributable to the acquisition, construction, development and installation of the tangible capital asset, except interest. Tangible Capital Assets include land, buildings, major equipment and software, vehicles, ferries, roads, highways, and bridges. Tangible capital assets do not include intangibles or assets acquired by right, such as forests, water and mineral resources or works of art and historical treasures. Tangible capital assets are amortized to expense over the useful lives of the assets. The amortization methods and rates selected by entities other than the Consolidated Fund are not adjusted to the methods and rates used by the Consolidated Fund.

Inventories of Supplies are held for consumption or use by the Province in the course of its operations. All entities, with the exception of the Consolidated Fund which continues to expense inventories of supplies in the year purchased, record inventory at the lower of cost and net realizable value.

Prepaid Expenses are cash disbursements for goods or services, other than Tangible Capital Assets and Inventories of Supplies, of which some or all will provide economic benefits in one or more future periods. The prepaid amount is recognized as an expense in the year the good or service is used or consumed.

### **Accumulated Deficits**

Accumulated Deficits represent the direct liabilities of the Province less financial assets, non-financial assets and unamortized foreign exchange translation gains and losses and premiums and discounts on outstanding debenture issues. This represents the accumulated balance of net surpluses/deficits arising from the operations of the Province.

#### **d) Measurement Uncertainty**

Uncertainty in the determination of the amount at which an item is recorded in the financial statements is known as measurement uncertainty. Uncertainty exists whenever estimates are used because it is reasonably possible that there could be a material difference between the recognized amount and another reasonably possible amount.

Measurement uncertainty exists in these financial statements in the accruals for such items as pension, retirement and other obligations, environmental remediation obligations, federal, and provincial source revenues. The nature of the uncertainty in the accruals for pension, retirement and other obligations arises because actual results may differ significantly from the Province's various assumptions about plan members and economic conditions in the marketplace. Uncertainty exists for environmental remediation obligations because the actual extent of remediation activities required may differ significantly based on the actual extent of site contamination and the chosen remediation process. Uncertainty related to Sales and Income Taxes, CHT and CST arises because of the possible differences between the estimated and actual economic growth assumptions used in statistical models to accrue these revenues.

## Notes to the Consolidated Financial Statements

### 2. ACCOUNTING CHANGES

Accounting changes were made during the year that have increased (decreased) the Provincial Surplus, on an expense basis, Net Direct Debt and Accumulated Deficits as follows (\$ millions):

#### Accounting Changes (\$ millions)

	2005			2004		
	Provincial Surplus, on an expense basis (April 1, 2004)	Net Direct Debt (April 1, 2004)	Accumulated Deficits (April 1, 2004)	Provincial Surplus, on an expense basis (April 1, 2003)	Net Direct Debt (April 1, 2003)	Accumulated Deficits (April 1, 2003)
a) Long-Term Disability Plan	4.4	(8.4)	(8.4)	(4.3)	(12.7)	(12.7)
b) Prepaid Expenses	—	2.5	—	—	1.3	—
c) Nova Scotia Legal Aid Commission	(0.2)	1.7	1.7	(0.2)	1.5	1.5
Total effect of Accounting Changes	4.2	(4.2)	(6.7)	(4.5)	(9.9)	(11.2)

#### a) Long-Term Disability Plan

A policy change was made to record the fund assets at market related value rather than at fair market value at the end of each fiscal year. Market value gains and losses are recognized over a five year period.

#### b) Prepaid Expenses

Prepaid expenses of the Consolidated Fund were reclassified from accounts receivable to prepaid expenses.

#### c) Nova Scotia Legal Aid Commission

The Commission offers health and insurance benefits to certain employees upon retirement. The obligation for this plan was valued during the 2005 fiscal period and recorded on a retroactive basis.

#### d) Funded Pension Plan Discount Rate Assumption Change

In accordance with GAAP, the change was applied prospectively and has no impact on opening net direct debt and prior period results reported. As a result it is not listed as an impact in the table above but is worthy of disclosure due to the changes in the components of the net pension liability. These impacts are provided in detail in Note 7(c) to these consolidated financial statements.



**3. UNUSUAL ITEM**

The Unusual Item disclosed on the Statement of Operations represents an accounting provision adjusted for the sale of certain assets from discontinued operations not in the normal course of activities of the Province.

**Provision Components  
(\$ millions)**

	2005	2004
<b>Nova Scotia Resources Limited</b>		
Proceeds on disposal of shares	—	1.6
Proceeds on sale of assets	—	5.8
Net book value of assets	—	(1.5)
Other earnings (loss) on operations	—	2.8
	—	8.7

**Nova Scotia Resources Limited (NSRL)**

Most of the Company's assets were sold during 2001 for proceeds of \$355 million. The Company continued to sell less significant assets. The shares of NSRL were sold in October 2003 for \$1.6 million.

**4. RESTRICTED CASH AND SHORT-TERM INVESTMENTS**

As at March 31, 2005, restricted cash and short-term investments of \$80.5 million (\$78.2 million as at March 31, 2004) have been designated for restricted purposes by parties external to the Province. Restricted cash includes \$27.3 million for future housing expenditures from the Nova Scotia Housing Development Corporation; \$13.1 million for gas market development from the Nova Scotia Market Development Initiative; and \$40.1 million for various other purposes.

**5. DERIVATIVE FINANCIAL INSTRUMENTS**

The Province is a party to financial instruments with off-balance sheet risk, either to hedge against the risks associated with fluctuations in foreign currency exchange rates or to manage risks associated with interest rate fluctuations. Hedging instruments are considered effective as their terms and conditions are specifically matched to the underlying financial obligation. Foreign currency contracts are used to convert the liability for foreign currency borrowing and associated costs into Canadian or US dollars. Interest rate contracts are used to vary the amounts and periods for which interest rates on financial instruments are fixed or floating. Interest swap contracts convert certain interest payments from fixed to floating, from floating to fixed, floating to floating or fixed to fixed basis. Foreign exchange contracts include forward and swap agreements. Interest rate contracts include forward rate agreements, swap agreements and options on swaps. Gains and losses associated with foreign currency contracts are amortized over the life of the underlying financial instrument. Gains and losses associated with interest rate contracts are recognized when interest payments are made.

The Province's credit policy is that it only executes derivative transactions with well-rated counter parties. All counter parties are rated equal to or better than the Province.

## Notes to the Consolidated Financial Statements

The Province had the following interest and currency swap contracts outstanding at March 31, 2005:

# of Swaps	Currency	Notional Principal	Term Remaining	Mark to Market *
		(\$ thousands)	(years)	(\$ millions)
143	CDN\$	1,819,904	32 days to 19	(23.4)
11	US\$	1,132,597	7 to 17	(277.1)
2	UK	83,250	6 to 14	9.0
2	Euro	90,000	2 to 5	9.8

\* Mark to Market is an indication of the swap's market value as at March 31, 2005. This represents the estimated realizable gain and loss, and is equivalent to the present value of future interest savings and losses based on market conditions as at March 31, 2005. The mark to market values of the currency swaps are reflected in the amounts shown under interest rate swaps.

The Province has executed several currency swap contracts/forward agreements to convert foreign denominated debt into Canadian or US denominated debt. The mark to market of these swap contracts are included above, and the currency swap contracts are as follows:

Termination Date	Original Currency	Original Principal	Current Currency	Current Principal
		(\$ thousands)		(\$ thousands)
<i>SWAPS:</i>				
October 31, 2011	UK	23,250	CDN\$	56,283
April 18, 2019	UK	60,000	US\$	110,040
February 27, 2012	US\$	500,000	CDN\$	795,000
March 15, 2016	US\$	150,000	CDN\$	205,725
March 1, 2020	US\$	300,000	CDN\$	409,200
April 1, 2022	US\$	182,597	CDN\$	247,967
December 28, 2007	Euro	40,000	CDN\$	56,120
February 24, 2010	Euro	50,000	CDN\$	72,235

At March 31, 2005 the Province had entered 11 forward agreements to convert future interest payments on foreign debt into Canadian dollars as follows:

Termination Date	Original Currency	Original Principal	Current Currency	Current Principal
		(\$ thousands)		(\$ thousands)
April 1, 2005 to July 29, 2005	US\$	85,894	CDN\$	109,747



## **6. FEDERAL EQUALIZATION REPAYABLE LOAN**

The Province received an equalization repayable loan from the Federal Government in March 2005 in the amount of \$120.3 million. The loan bears no interest and is to be repaid over 10 years, with bi-monthly deductions to commence in April 2006.

## **7. PENSION, RETIREMENT AND OTHER OBLIGATIONS**

### **a) Description of Obligations**

The Province offers a variety of pension, other retirement, post-employment and special termination benefits. The Province is responsible for adequately funding most of the plans. Except as otherwise noted, the cost of benefits are recognized in the periods the employee provides service. For benefits that do not vest or accumulate, a liability is recognized when an event that obligates the Province to pay benefits occurs. The significant plans are detailed as follows:

#### **i) Pension Benefit Plans**

The Province sponsors two funded pension plans, the Public Service Superannuation Plan (PSSP) and the Nova Scotia Teachers' Pension Plan (TPP). Both plans are defined benefit plans with plan assets primarily composed of Canadian and foreign equities, government and corporate bonds, debentures and secured mortgages. The plans are jointly funded with contributions from employees being matched by the Province. Benefits paid upon retirement are based on an employee's length of service, rate of pay and inflation adjustments.

The Province has several unfunded defined pension plans. The majority of these plans do not require contributions from employees. Benefits paid upon retirement are based on an employee's length of service, rate of pay and inflation adjustments.

Employees in the health sector are members of a multi-employer defined benefit pension plan. As the Province does not sponsor this plan, the annual net benefit plan expense is the amount of required contributions provided for employees' services rendered during the year. The accrued benefit asset (liability) of this plan is not recognized in these financial statements. The most recent actuarial valuation was performed on December 31, 2003 and showed a funding excess for the entire plan of \$105 million. An extrapolation to December 31, 2004, was performed, which indicates a funding surplus of \$81 million.

#### **ii) Other Retirement Benefit Plans**

The Province sponsors two other retirement benefit plans: retirement allowances and retirement health plan benefits. These plans are not funded. Benefits paid upon retirement for retirement allowances are based on an employee's length of service and rate of pay. Retirement health plan benefits vary depending on the collective agreements negotiated with each group. The Province pays 65% and 100% of the cost of retirement health plan benefits for the PSSP and TPP retirees respectively.

#### **iii) Post-Employment Benefits**

The Province offers two significant post-employment benefit plans: Self Insured Workers' Compensation and Long-Term Disability. The amount recorded in these financial statements represents the actual amount of benefits paid during the year plus the actuarial estimate of future payments, based on claims ongoing at year-end, in excess of the fair market value of plan assets.

## Notes to the Consolidated Financial Statements

### iv) Special Termination Benefits

The Province has offered early retirement incentive programs to members of the PSSP and TPP at various times commencing in 1986 and 1994 respectively. Qualified members were offered additional years of pensionable service if they elected to retire. The cost of these benefits were accrued in the year the employee accepted the early retirement option.

### b) Summary of Activity in Defined Benefit Plans

#### Accrued Benefit Liability (\$ thousands)

	2005	2004 (as restated)
Pension Benefit Plans	193,594	160,828
Other Benefit Plans	1,168,104	1,150,835
	1,361,698	1,311,663

#### Activity During the Year (\$ thousands)

	Pension Benefit Plans		Other Benefit Plans	
	2005	2004	2005	2004 (as restated)
Projected benefit obligation,				
beginning of year	7,726,961	7,407,892	1,157,988	1,151,998
Current benefit cost	193,258	173,478	47,113	44,337
Interest cost	597,296	588,028	68,499	68,534
Actuarial (gains) losses	332,918	(8,031)	(27,933)	(33,091)
Benefit payments	(456,911)	(426,933)	(88,502)	(90,350)
Other	1,839	(8,392)	—	180
Plan amendments	—	919	1,830	16,380
Projected benefit obligation, end of year	8,395,361	7,726,961	1,158,995	1,157,988
Market related value of plan assets,				
beginning of year	7,273,155	6,998,994	38,957	33,057
Expected return on plan assets	545,906	562,227	2,880	2,627
Actuarial gains (losses)	(292,453)	(93,980)	(2,187)	(851)
Benefit payments	(456,911)	(426,933)	(88,502)	(90,338)
Other	3,213	—	(310)	(538)
Employer contributions	124,701	128,098	85,363	86,174
Employee contributions	101,002	104,749	9,016	8,826
Market related value of plan assets,				
end of year	7,298,613	7,273,155	45,217	38,957
Funded status, end of year	(1,096,748)	(453,806)	(1,113,778)	(1,119,031)
Unamortized net actuarial (gains) losses	903,154	292,978	(54,326)	(31,804)
Accrued benefit liability, end of year	(193,594)	(160,828)	(1,168,104)	(1,150,835)





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### c) Actuarial Assumptions

The table below shows significant weighted-average assumptions used to measure pension and other benefit plan obligations.

	Pension Benefits		Other Benefits	
	2005	2004	2005	2004
Long-term inflation rates	2.75%	3.0%	2.75%	3.0%
Expected real rate of return on plan assets	4.75%	5.0%	—	—
Rate of compensation increase	3.25% to 6.0% + merit	3.5% to 6.0% + merit	3.25% to 6.0% + merit	3.5% to 6.0% + merit
Discount rate – Main plans	7.63%	8.15%	6.05%	6.17%
– Other	—	—	6.0% to 7.12%	7.0% to 7.38%

Other assumptions used were:

7% annual rate increase in the cost per person of covered healthcare benefits for 2005, decreasing at 0.25% per annum to an ultimate rate of 5.0% per annum.

13% annual rate increase in the cost per person of covered prescription drugs for 2005, decreasing at 1% per annum to an ultimate rate of 5.0% per annum.

Actuarial assumptions are reviewed and assessed on a regular basis to ensure that the accounting assumptions take into account various changing conditions and reflect the Province's best estimate of performance over the long-term. As a result of this year's review, changes to the discount rate were made. In relation to the Province's two main funded pension plans, Public Service Superannuation Plan and the Teachers' Pension Plan, the total impact of this change was to increase debt servicing costs by \$22.7 million and the Pension, Retirement and Other Obligation liability by the same amount. The net increase in the liability is comprised of a \$291.2 million increase in the total accrued benefit obligation, a \$29.7 million decrease in the market related value of the plan assets, and a \$298.3 million increase in the net unamortized experience losses. In relation to other unfunded retirement benefits, the information on the impact of changing the discount rate is not included in the above amounts.

### d) Other Disclosure

The net unamortized actuarial gains (losses) are amortized on a straight-line basis over the expected average remaining service life (EARSL) of the related employee groups ranging from 6 years to 16 years (weighted-average EARSL is 14 years).

During the year the weighted average actual rate of return on plan assets was 7.5% (2004 – [23%]). The market value of plan assets is \$7.2 billion (2004 – \$6.9 billion) at March 31, 2005.

The most recent actuarial valuations performed for most of the benefit plans was at December 31, 2003 with the exception of certain other retirement benefit plans that were performed on December 31, 2004 and the post-employment benefit plans that are performed annually at March 31.

## Notes to the Consolidated Financial Statements

### e) Net Benefit Plans Expense (Recovery)

The table below shows the components of the net benefit plans expense (recovery).

(\$ thousands)	Pension Benefits		Other Benefits	
	2005	2004	2005	2004 (as restated)
Current benefit cost	193,258	173,478	47,112	44,337
Employee contributions	(102,376)	(103,557)	(9,016)	(8,826)
Plan amendments	—	919	1,830	16,380
Amortization of net actuarial (gains) losses	15,195	5,394	(3,223)	(3,196)
Other	(30)	792	571	2,550
Decrease in valuation allowance	—	—	—	—
Interest cost	597,296	584,990	68,499	68,534
Expected return on plan assets	(545,906)	(562,227)	(2,880)	(2,627)
Employer contributions to multi-employer plan	43,976	31,600	—	—
<b>Net benefit plans expense (recovery)</b>	<b>201,413</b>	<b>131,389</b>	<b>102,893</b>	<b>117,152</b>

### 8. TRUST FUNDS UNDER ADMINISTRATION

Trust fund assets administered by the Province (before giving consideration to actuarial adjustments) are:

(\$ thousands)	2005	2004 (as restated)
Public Service Superannuation Fund (1)	3,188,836	3,045,756
Nova Scotia Teachers' Pension Fund (1), (4)	3,900,396	3,719,808
Workers' Compensation Board (4)	939,467	844,696
Sydney Steel Corporation Superannuation Plan (1), (2)	11,510	15,348
Nova Scotia Public Service Long Term Disability Plan (1), (4)	40,258	34,302
Nova Scotia Credit Union Deposit Insurance Corporation (1), (4)	12,150	13,031
Public Trustee (1)	27,961	26,370
Miscellaneous Trusts (3)	18,613	21,360
	<b>8,139,191</b>	<b>7,720,671</b>

(1) See Public Accounts Volume II for full financial statements of these funds.

(2) Administration of the assets of Sydney Steel Corporation Superannuation Fund was assumed during fiscal 2001.

(3) Miscellaneous trusts include a large number of relatively small funds.

(4) These represent trusts with December 31 year ends. Trust asset balances at March 31 did not differ significantly.



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### 9. NET EXPENSES BY OBJECT

(\$ thousands)	2005	2004 (as restated)
Grant and Subsidies	2,148,490	1,980,838
Salaries and Employee Benefits	2,435,518	2,276,705
Operating Goods and Services	1,547,137	1,536,251
Professional Services	175,159	158,155
Amortization and Social Housing Adjustment	195,457	185,193
Debt Servicing Costs	1,067,090	1,072,890
Other	27,924	(3,205)
Less: Chargeables to other Divisions and Departments	(417,318)	(391,692)
Less: Recoveries	(339,987)	(386,978)
Less: Fees and Other Charges	(60,590)	(67,741)
<b>Total Net Expenses</b>	<b>6,778,880</b>	<b>6,360,416</b>

### 10. DEBT SERVICING COSTS

(\$ thousands)	2005	2004 (as restated)
CDN\$ Denominated Debt	667,966	697,708
US\$ Denominated Debt	200,488	195,785
Pension, Retirement and Other Obligations	117,013	88,778
Capital Leases	26,480	27,647
Other Debt	45,189	40,823
Premium / Discount Amortization	2,269	(8,929)
Foreign Exchange	6,304	30,136
Miscellaneous	1,381	942
<b>Total Debt Servicing Costs</b>	<b>1,067,090</b>	<b>1,072,890</b>

Debt servicing costs for Government Business Enterprises was \$23.0 million for the year ended March 31, 2005 (\$25.2 million for the year ended March 31, 2004).

### 11. CASH FLOW – NET CHANGE IN OTHER ITEMS

(\$ thousands)	2005	2004 (as restated)
Change in Receivables from Government Business Enterprises	(20,896)	1,209
Change in Receivables and Advances	(65,416)	(7,343)
Change in Accounts Payable and Other Short-term Borrowings	481,390	245,339
Change in Inventory for Resale	(375)	662
Change in Inventory of Supplies	(2,020)	(2,047)
Change in Prepaid Expenses	(1,054)	(3,838)
Change in Deferred Revenue	138,387	44,524
Change in Accrued Interest	(11,600)	(11,230)
Change in Pension, Retirement and Other Obligations	50,035	(9,550)
<b>Total Net Change in Other Items</b>	<b>568,451</b>	<b>257,726</b>

## Notes to the Consolidated Financial Statements

### 12. CONTINGENCIES AND CONTRACTUAL OBLIGATIONS

#### a) Contingent Liabilities

##### i) Environmental Sites

Various provincially owned sites throughout the Province are considered environmental or contaminated sites. Studies are ongoing to assess the nature and extent of damage to develop remediation plans. Provisions for these costs are recorded in these financial statements when it is determined a liability exists and a reasonable estimate of the remediation costs can be made. With the exception of remediation costs noted in the following paragraphs, no further provisions have been recognized in these financial statements.

Engineering and environmental studies have generated estimates for the cost of remediation of the Sydney Steel Corporation and adjacent sites as well as the Sydney Tar Ponds site. As a result, the Province recorded liabilities of \$250.0 million and \$68.5 million, respectively, in 2000 for environmental site clean-up. Of these provisions, \$205.1 million (2004 – \$218.7 million) and \$37.4 million (2004 – \$46.7 million), respectively, remain unspent. Based on currently available information, the provisions, in aggregate, appear sufficient to cover the estimated costs to remediate these sites.

Other remediation liabilities amounting to \$36.6 million (2004 – \$16.1 million) have been recognized in these financial statements.

##### ii) Lawsuits

The Province's losses for any lawsuits pending cannot be determined due to uncertainty of the trial outcomes.

##### iii) Other Contingent Liabilities

The Province also has contingent liabilities in the form of indemnities and meeting supply volumes of certain natural resources. The Province's potential liability, if any, cannot be determined at this time.

#### b) Contingent Gains

The Province of Nova Scotia may receive funds in the future from recoveries of various types of claims paid out and other agreements pending the occurrence of certain events. Recoveries are recorded in the year the contingent events occur.

#### c) Contractual Obligations

##### i) Contractual Obligations

Contractual obligations outstanding at March 31, 2005 total \$1,845.6 million; comprised of \$1,722.6 million for the Consolidated Fund, \$118.9 million for other Government Units and \$4.1 million for Government Business Enterprises. Included are contractual obligations of \$91.8 million by Nova Scotia Business Incorporated for projects approved under its various programs, \$685.7 million by the Department of Education for university assistance, \$414.8 million by the Department of Education for P3 School maintenance agreements, and \$344.3 million by the Department of Health for the management of the ground ambulance fleet.



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In addition to the contractual obligations noted above, in 1992 the Department of Justice entered into a 20-year contract with the RCMP for policing services, including services paid by the municipalities under the Service Exchange Agreement. Costs are negotiated each year based on required policing services. The net estimated expense for the Province for 2006 is \$20 million.

The Department of Natural Resources has long-term contractual obligations to provide access to certain natural resources.

### ii) Leases

As at March 31, 2005, the Province was contractually obligated under various operating leases. Future minimum annual lease payments are as follows:

(\$ thousands)			
Fiscal Year	Governmental Units	Government Business Enterprises	Total Lease Payments
2005-2006	42,555	3,250	45,805
2006-2007	36,652	2,821	39,473
2007-2008	27,697	1,031	28,728
2008-2009	20,338	445	20,783
2009-2010	15,978	202	16,180
2011-2015	17,838	—	17,838
2016-2020	13,463	—	13,463
2021-2025	1,641	—	1,641
	176,162	7,749	183,911

## 13. SUBSEQUENT EVENTS

### a) Teachers Pension Plan

On June 22, 2005, the Province and the Nova Scotia Teachers' Union signed an agreement to address the unfunded obligation of the Fund and to provide the framework for joint trusteeship of the Nova Scotia Teachers' Pension Fund which is to become effective on April 1, 2006. As part of the agreement, the Province made a one-time payment of \$142.0 million plus interest in June 2005 as its contribution to the plan to offset changes to the indexing provisions agreed to by teachers effective April 1, 2005 upon changes to the Teachers' Pension Act Regulations. The accounting impact on the total accrued benefit obligation has been estimated by management to be \$230.3 million but the precise amount will be impacted over time by a number of variables that will impact the calculation including, but not limited to, the rate of inflation, the funded status of the plan, the percentage of members who opt for the new rules, the return on plan assets and the number of teachers retiring prior to August 1, 2006.

### b) 2005 Offshore Agreement

On June 29, 2005, the 2006 federal budget received royal assent. Included in the budget is authority to compensate the Province of Nova Scotia for reductions in Equalization payments due to Offshore revenues. An initial up front payment of \$830 million was received on July 4, 2005.

## Notes to the Consolidated Financial Statements

### 14. COMPARATIVE FIGURES

To conform with the current year's presentation, certain comparative figures for the prior year have been restated as follows:

#### a) Accounting Changes

As described in Note 2, there have been some retroactive restatements of figures in accordance with changes made during the year.

#### b) Presentation

Certain of the prior year's numbers have been restated to conform to the presentation format adopted in the current year.

### 15. RELATED PARTY TRANSACTIONS

Included in these consolidated financial statements are immaterial transactions with various provincial crown corporations, agencies, boards and commissions. Significant related party transactions have been offset and eliminated for purposes of consolidated reporting. Parties are deemed to be related to the Consolidated Fund due to common control or ownership by the Province of Nova Scotia.

The most significant unadjusted related party transactions are described in Schedule 6 – Government Business Enterprises.



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