PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE
SUPERANNUATION FUND
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004

NOVA SCOTIA

Office of the Auditor General

1888 Brunswick Street
Suite 302
Halifax, Nova Scotia,
B3J 3J8

Bus: (902) 424-5907
Fax: (902) 414-4350

Auditor's Report

To the Members of the Legislative Assembly of Nova Scotia; and

To the Minister of Finance

I have audited the consolidated statement of net assets available for benefits and accrued pension benefits net of deficiency of the Nova Scotia Public Service Superannuation Fund as at March 31, 2004 and the consolidated statement of changes in net assets available for benefits for the year then ended. These consolidated financial statements are the responsibility of the Fund's management. 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 consolidated financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits net of deficiency of the Fund as at March 31, 2004 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

E R Salmon

E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
May 18, 2004

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004

CONTENTS

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
CONSOLIDATED STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED PENSION BENEFITS NET OF DEFICIENCY
AS AT MARCH 31, 2004

	2004	**2003**
	(000's)	(000's)
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments (Note 3)	$ 3,049,621	$ 2,518,904
Contributions receivable		
Employees'	2,785	2,221
Employers'	2,975	2,772
Accrued income	24,001	24,075
Net investment transactions outstanding	-	23,475
Prepayment	97	-
Cash	1,225	598
Total assets	3,080,704	2,572,045
Liabilities		
Accounts payable	28,113	16,515
Net investment transactions outstanding	6,835	-
Total liabilities	34,948	16,515
Net assets available for benefits	3,045,756	2,555,530
Actuarial asset value adjustment (Note 4)	600	749
Actuarial value of net assets available for benefits	$ 3,046,356	$ 2,556,279
ACCRUED PENSION BENEFITS NET OF DEFICIENCY		
Accrued pension benefits	$ 3,522,000	$ 3,318,275
Deficiency (Note 5)	(475,644)	(761,996)
Accrued pension benefits net of deficiency	$ 3,046,356	$ 2,556,279

Subsequent events (note 8)

Approved:

Trustee - Minister of Finance

See accompanying notes to consolidated financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED MARCH 31, 2004

	2004	2003
	(000's)	(000's)
Increase In Assets		
Investment activities (Note 3)	$ 593,614	$ -
Contributions		
Employers' - matched	37,401	36,938
Employees' - matched	37,401	36,938
Employees' - unmatched	5,195	2,045
Interest on the purchase of prior years' service	1,056	1,003
Transfers from other pension plans	2,912	4,068
	83,965	80,992
Total increase in assets	677,579	80,992
Decrease In Assets		
Investment activities (Note 3)	-	304,838
Benefits paid	155,366	149,127
Operating expenses (Note 6)	7,591	7,101
Refund of contributions and interest and transfers to other pension plans	24,396	11,437
Total decrease in assets	187,353	472,503
Increase (Decrease) in Net Assets	490,226	(391,511)
Net Assets Available for Benefits at Beginning of Year	2,555,530	2,947,041
Net Assets Available for Benefits at End of Year	$ 3,045,756	$ 2,555,530

See accompanying notes to consolidated financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004

1. Authority and Description of Plan

The Public Service Superannuation Fund (the "Fund") was established by the Public Service Superannuation Act (the "Act"). It is the funding vehicle for the Public Service Superannuation Plan (the "Plan"), a pension plan which covers employees of the Province and certain other public sector organizations. The detailed provisions of the Plan, including pension eligibility criteria and benefit formulas are also contained in the Act and in the Regulations made under the Act.

The following description is a summary only. For more complete information, reference should be made to the Plan Agreements.

Employee and employer contributions and investment earnings are credited to the Fund. Pensions, payments to terminating employees and administration expenses are charged to the Fund. The Minister of Finance is trustee of the Fund which is invested in federal, provincial, municipal and corporate securities which qualify as eligible investments under the Provincial Finance Act.

The Plan is funded by employee and matching employer contributions of 5.4% of salary up to the Year's Maximum Pensionable Earnings ("YMPE") per the Canada Pension Plan ("CPP") and 7% of salary above the YMPE. The basic pension formula is 2% for each year of pensionable service times the number of years of pensionable service. Pensions are integrated with CPP benefits at age 65. Pensions in pay and deferred pensions are increased on January 1 of each year at a rate equal to the increase in the Consumer Price Index for Canada to a maximum of 6%.

Plan members are eligible for a pension upon reaching any of the following criteria:
- age 50 with an age plus pensionable service factor of 80 – "Rule of 80";
- age 55 with two years of service (reduced pension);
- age 60 with two years of service;
- age 65.

Certain pension payments are attributable to previous early retirement programs and other unfunded benefits. They are charged to the Consolidated Fund of the Province and participating employers and are not paid from the Fund. These payments amounted to $16.3 million for the year ended March 31, 2004 (2003 - $15.9 million).

2. Summary of Significant Accounting Policies

(a) Basis of Presentation:

These consolidated financial statements are prepared on the going-concern basis and present the aggregate financial position of the Fund as a separate financial reporting entity. In the event there are insufficient funds within the Fund to make all payments required by the Act, the Province of Nova Scotia guarantees cash flow assistance with respect to the pension benefits in pay. These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(b) Consolidation:

The Fund holds certain real estate investments through wholly-owned subsidiaries. The consolidated financial statements include the financial statements of the Plan and its subsidiaries.

(c) Foreign Currency Translation:

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing on the trade dates of the transactions. The market value of foreign investments and cash balances held at year-end are translated at the rates in effect at that date. The resulting gain or loss from changes in these rates is included in current period change in market value of investments.

(d) Investments:

(i) Investments are reported as of the trade date and are stated at market value as at year-end. Market value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

(ii) The derivative contracts held by the Fund at year-end are recorded at market value with the resulting gains or losses being recognized in the realized and unrealized gains or losses on investments.

2. Summary of Significant Accounting Policies (continued)

(iii) Real estate is composed of income producing properties and real estate pooled funds. Unless recently acquired in the current fiscal year, properties are valued annually, by independent appraisers in accordance with generally accepted appraisal practices and procedures. This process utilizes discounted future cash flows. In estimating future cash flows certain assumptions are made with respect to future economic conditions and rates of return.

The fair value of any real estate which has been recently acquired is based on the purchase price.

(e) Investment Income/Loss:

Investment income/loss, which includes interest, dividends and operating income/loss from real estate, is recorded on the accrual basis. Also included are gains and losses that have been realized on disposal of investments, and the unrealized appreciation and depreciation in the fair value of investments.

(f) Non-investment Assets and Liabilities:

The fair value of contributions receivable, accrued income, prepayment, cash, accounts payable, net investment transactions outstanding, accounts payable and real estate payables approximate their carrying amounts due to their short-term nature.

(g) Actuarial Value of Net Assets Available for Benefits:

The Fund values assets using a technique known as "Actuarial Smoothing", whereby the actuarial asset values are adjusted to reflect the portion of investment gains or losses (relative to actuarial assumptions) not yet recognized for purposes of determining the net assets available for benefits. The adjustment is based on the difference between the market value of assets and what the market value would have been if the Fund had earned the assumed rate of return, and is amortized over the current year and the following two years. This adjustment is subject to the condition that the actuarial asset value will not be greater than the fair market value of investments.

2. Summary of Significant Accounting Policies (continued)

(h) Contributions:

Basic contributions from employers and members due to the Plan as at the end of the year are recorded on an accrual basis. Service purchases that include but are not limited to leaves of absence and transfers from other pension plans are recorded when received.

(i) Benefits:

Benefit payments to retired members, commuted value payments and transfers to other pension plans are recorded in the period in which they are paid. Accrued benefits are recorded as part of accrued actuarial liabilities.

(j) Use of Estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the year. Actual results could differ from these estimates.

Certain vested members of the Plan, after termination of employment, elected to withdraw the commuted value of their pension benefit entitlements from the Fund. The basis for the commuted value calculation is defined in the Plan's Regulations. Due to a programming error, the commuted value calculation was not calculated in accordance with the Plan Regulations from 1994 to 1999 resulting in the underpayment of benefit entitlements to these members. As at March 31, 2004, the liability related to these entitlements is estimated at $9.8 million.

3. Investments and Derivatives

The investment objectives of the Plan are to provide long-term security of pension benefits to members and to minimize any increases in contributions required by members and the employers. A strategy of investing in assets of Canadian and foreign equities, bonds, debentures, mortgages and money market securities is aimed at achieving these objectives.

3. Investments and Derivatives (Continued):

(a) Market value of investments and related income before allocating the effect of derivative contracts:

	As at March 31, 2004 Asset (000's)	%	For the Year Income (Loss)* (000's)	As at March 31, 2003 Asset (000's)	%	For the Year Income (Loss)* (000's)
Money market	$ 482,193	15.8	$ 9,372	$ 230,207	9.2	$ 5,396
Fixed income	906,666	29.7	105,598	964,767	38.3	102,928
Equities						
- Canadian	895,737	29.4	265,374	713,236	28.3	(127,643)
- US	457,792	15.0	103,638	402,586	16.0	(161,358)
- Other foreign	236,508	7.8	59,632	176,080	7.0	(88,362)
Real Estate						
- Canadian	21,803	0.7	541	-	-	-
- Pooled fund	49,325	1.6	2,424	36,001	1.4	1,140
Derivatives	(403)	0.0	46,992	(3,973)	(0.2)	(36,959)
Other	-	-	43	-	-	20
	$ 3,049,621	100.0	$ 593,614	$ 2,518,904	100.0	$ (304,838)

* Includes realized gains of $47.8 million ($42.1 million - 2003) and unrealized gains of $413.0 million (losses of $321.5 million - 2003).

(b) Derivative Contracts:

Derivatives are financial contracts, the value of which is "derived" from the value of underlying assets or interest or exchange rates. Derivatives provide flexibility in implementing investment strategy.

Money market-to-equity swaps have been used during the year to adjust the asset mix.

Bond futures are contractual agreements to buy or sell the financial instrument at the contracted date and price. Bond futures have been used to adjust asset mix during the year.

3. Investments and Derivatives (Continued):

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, the Fund:

- deals only with highly rated counterparties with whom International Swap and Derivative Association agreements have been executed, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency; and
- enters into derivatives only for the purposes of managing risk.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

The following table provides details of these derivative contracts outstanding as at March 31, 2004:

Notional Principal	Original Term	Credit Rating of Counter-party	Equity Index	BA Index	Market Value
(000's)					(000's)
$ 18,758	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	$ (106)
44,800	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	(1,373)
48,193	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	224
72,107	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	708
$ 183,858					$ (547)
US ($14,800)		Bond Futures			CDN $ 144
Total					$ (403)

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004

3. Investments and Derivatives (Continued):

Notional amounts of these derivative contracts represent the volume of outstanding transactions and serve as the basis upon which the return from and the market value of the contracts are determined.

Money market-to-equity swap contracts are denominated in Canadian dollars and are reset quarterly.

(c) Market value of investments and related income after allocating the effects of derivative contracts:

	As at March 31, 2004		For the Year	As at March 31, 2003		For the Year
	Asset (000's)	%	Income* (000's)	Asset (000's)	%	Income (Loss)* (000's)
Money market	$ 298,296	9.8	$ 5,182	$ 72,278	2.9	$ 1,558
Fixed income	906,666	29.7	105,226	964,767	38.3	102,928
Equities						
- Canadian	1,079,231	35.4	316,928	867,192	34.4	(160,764)
- US	457,792	15.0	103,638	402,586	16.0	(161,358)
- Other foreign	236,508	7.8	59,632	176,080	7.0	(88,362)
Real Estate						
- Canadian	21,803	0.7	541	-	-	-
- Pooled fund	49,325	1.6	2,424	36,001	1.4	1,140
Other	-	-	43	-	-	20
	$ 3,049,621	100.0	$ 593,614	$ 2,518,904	100.0	$ (304,838)

* Includes realized gains of $47.8 million ($42.1 million - 2003) and unrealized gains of $413.0 million (losses of $321.5 million - 2003).

3. Investments and Derivatives (Continued):

(d) Investment Risk Management:

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate volatility, market and credit risk. The Fund has set formal policies and procedures that establish an asset mix among equity, fixed income and real estate investments, require diversification of investments within categories, and set limits on the size of exposure to individual investments and counterparties. In addition, derivative financial instruments are used, where appropriate, to assist in the management of these risks.

(i) Interest rate risk:

Interest rate risk refers to the fact that the Plan's financial position will change as market interest rates change. Interest rate risk is inherent in the nature of the pension plan business due to prolonged timing differences between cash flows related to the Plan's assets and cash flows related to the Plan's liabilities.

The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets. Pension liabilities are exposed to the long-term expectation of rate of return on the investments as well as expectations of inflation and salary escalation. To meet these liabilities the Plan has established an asset mix policy of approximately 60% equities, 33% fixed income securities and 7% real estate. Long-term equity returns have historically shown high correlation with changes in inflation and salary escalation, while fixed income securities are sensitive to changes in nominal interest rates.

3. Investments and Derivatives (Continued):

	March 31, 2004						March 31, 2003	
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Average effective yield	Total	Average effective yield
	(000's)	(000's)	(000's)	(000's)	(000's)	%	(000's)	%
Money market	$ 482,193	$ -	$ -	$ -	$ 482,193	2.2	$ 230,207	3.3
Bonds and debentures	20,016	291,509	254,596	229,285	795,406	5.7	866,514	6.4
Real return bonds	-	-	-	111,260	111,260	3.6	98,253	4.0
Total	$ 502,209	$ 291,509	$ 254,596	$ 340,545	$ 1,388,859		$ 1,194,974	

The average effective yield reflects the estimated annual income of a security as a percentage of its year-end market value.

(ii) Market risk:

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. The Fund's policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Guidelines, and to utilize derivative financial instruments, which are designed to mitigate the impact of market risk.

(iii) Credit risk:

Credit risk is the risk of loss in the event the counterparty to a transaction fails to discharge an obligation and causes the other party to incur a loss.

The Plan limits credit risk by purchasing fixed income securities with a credit rating of "BBB" and higher. In addition, the Plan limits derivative contract risk by dealing with counterparties that have a minimum "A" credit rating.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004

3. Investments and Derivatives (Continued):

(iv) Foreign currency risk:

Foreign currency exposure arises from the Plan's holding of equities denominated in foreign currency. From time to time some of this exposure will be hedged based on interest rates or other economic fundamentals.

The Plan's currency exposure from net investment assets as at March 31, 2004 is summarized in the following table.

Currency	March 31, 2004 (000's)	March 31, 2003 (000's)
Canada	$ 2,370,116	$ 1,981,156
United States	489,631	430,825
Euro Zone	69,085	42,648
Japan	39,857	26,830
United Kingdom	39,169	37,169
Other	60,154	48,404
Total	$ 3,068,012	$ 2,567,052

4. Actuarial Asset Value Adjustment:

The actuarial asset value adjustment is comprised of the following:

	2004 (000's)	2003 (000's)
Service buy-back receivable	$ 600	$ 749

4. Actuarial Asset Value Adjustment (Continued):

(a) Unamortized Investment Gains and Losses:

The net assets available for benefits is subject to an actuarial asset value adjustment which moderates the effects of market volatility on investment value. The adjustment is based on the difference between the market value of assets and what the market value would have been if the Fund had earned the assumed rate of return, and is amortized over the current year and the following two years. The actuarial asset value adjustment reflects the portion of investment gains or losses (relative to actuarial assumptions) not yet recognized for purposes of determining the net assets available for benefits. This adjustment is subject to the condition that the actuarial asset value will not be greater than the fair market value of investments.

(b) Service buy-back receivable:

This receivable represents the present value of outstanding employee and employer contributions which are due as a result of service buy-backs.

5. Actuarial Valuation:

Actuarial valuations of the Fund are carried out annually and provide an estimate of the accrued pension benefits ("Fund liabilities") calculated using various economic and demographic assumptions, based on membership data as at the valuation date. The Plan's consulting actuaries, Morneau Sobeco, performed a valuation as at December 31, 2003 and issued their report in April 2004. The report indicated that the Plan had an unfunded liability of $492.8 million (December 31, 2003 - $587.0 million). A projection to March 31, 2004, applying the same assumptions, indicated an unfunded liability of $475.6 million (March 31, 2003 - $762.0 million).

The actuarial valuation projects liabilities for each member on the basis of service earned to date and the member's projected five year average salary at the expected date of retirement. The actuaries have used the unit credit method of determining the current cost and actuarial liability. The major economic and demographic assumptions used in the last valuation are as follows:

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004

5. Actuarial Valuation (Continued):

	Valuation **December 31, 2003**	**Valuation** **December 31, 2002**
Inflation	3.0% per annum	3.0% per annum
Average Salary Increase	0.5% per annum real plus merit ranging from 0.0% to 2.5% based on 5 year age bands	0.5% per annum real plus merit ranging from 0.0% to 2.5% based on 5 year age bands
Real Rate of Return on Investment	4.25% per annum	4.25% per annum
Average Retirement Age	20% - age 55 or "Rule of 80" 80% - age 60 or 35 years service	20% - age 55 or "Rule of 80" 80% - age 60 or 35 years service
Mortality	1994 Group Annuity Mortality Table projected to 2000 using scale AA	1994 Group Annuity Mortality Table projected to 2000 using scale AA

There has been no change in major actuarial assumptions and methodology used for December 31, 2003 as compared to December 31, 2002:

6. Operating Expenses:

The Fund is charged with administrative and certain other expenses incurred on behalf of the Fund by the Department of Finance. The following is a summary of these operating expenses:

	2004	**2003**
	(000's)	(000's)
Plan Administration		
Professional services	$ 170	$ 171
Salaries	714	720
Supplies and services	333	416
Travel	10	7
Other	79	84
	1,306	1,398
Investment Expenses		
Investment management fees	5,782	5,185
Professional services	41	29
Salaries	318	356
Supplies and services	107	72
Travel	13	22
Other	24	39
	6,285	5,703
Total Operating Expenses	$ 7,591	$ 7,101

7. Related Party Transactions:

Investments include debentures of the Province of Nova Scotia with total market value of $17.8 million (0.6% of total assets) as at March 31, 2004 ($41.8 million [1.6% of total assets] as at March 31, 2003).

8. Subsequent Events:

Plan Regulations were amended which increased member contribution rates by 1% effective June 1, 2004. Each member is required to contribute 6.4% (previously 5.4%) of salary up to the Year's Maximum Pensionable Earnings (YMPA) plus 8% (previously 7%) of salary in excess of YMPE. Contributions are matched by the Province.

9. Comparative Figures:

Certain comparative figures have been reclassified to conform with the current year presentation.