PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005

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, 2005 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, 2005 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 25, 2005

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005

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, 2005

	2005	**2004 (Restated – see Note 3)**
	(000's)	(000's)
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments (Note 4)	$ 3,202,226	$ 3,049,621
Contributions receivable		
Employees'	3,435	2,785
Employers'	4,084	2,975
Accrued income	14,833	14,021
Net investment transactions outstanding	5,838	-
Prepayment and sundry receivables	473	97
Cash	2,083	1,225
Total assets	3,232,972	3,070,724
Liabilities		
Real estate mortgages (Note 5)	17,614	-
Accounts payable	26,522	28,113
Net investment transactions outstanding	-	6,835
Total liabilities	44,136	34,948
Net assets available for benefits	3,188,836	3,035,776
Actuarial asset value adjustment (Note 6)	411	600
Actuarial value of net assets available for benefits	$ 3,189,247	$ 3,036,376
ACCRUED PENSION BENEFITS NET OF DEFICIENCY		
Accrued pension benefits (Note 7)	$ 3,729,200	$ 3,522,000
Deficiency (Note 7)	(539,953)	(485,624)
Accrued pension benefits net of deficiency	$ 3,189,247	$ 3,036,376

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, 2005

	2005	**2004 (Restated – see Note 3)**
Increase In Assets	(000's)	(000's)
Investment activities (Note 4)	$ 243,207	$ 591,724
Contributions		
Employers' – matched	43,860	37,401
Employees' – matched	43,860	37,401
Employees' – unmatched	1,205	5,195
Interest on the purchase of prior years' service	564	1,056
Transfers from other pension plans	810	2,912
	90,299	83,965
Total increase in assets	333,506	675,689
Decrease In Assets		
Benefits paid	164,074	155,366
Operating expenses (Note 8)	8,233	7,591
Refund of contributions and interest and transfers to other pension plans	8,139	24,396
Total decrease in assets	180,446	187,353
Increase in Net Assets	153,060	488,336
Net Assets Available for Benefits at Beginning of Year as previously reported	3,045,756	2,555,530
Prior Period Adjustment (Note 3)	(9,980)	(8,090)
Net Assets Available for Benefits at Beginning of Year as restated	3,035,776	2,547,440
Net Assets Available for Benefits at End of Year	$ 3,188,836	$ 3,035,776

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, 2005

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 Act and Regulations.

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 that qualify as eligible investments under the Provincial Finance Act.

The Plan is funded by employee and matching employer contributions of 6.4% (5.4% prior to June 2004) of salary up to the Year's Maximum Pensionable Earnings ("YMPE") per the Canada Pension Plan ("CPP") and 8% (7% prior to June 2004) 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 $16.6 million for the year ended March 31, 2005 (2004 - $16.3 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 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.

Money market securities, fixed income securities and equities are valued at quoted market prices.

Private equity values are estimated with appropriate valuation techniques and best estimates of managers or appraisers.

(ii) The derivative contracts held by the Fund at year-end are valued using quoted market indices. The gains or losses from derivative contracts are included 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, including real estate mortgages, 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 includes interest, dividends and operating income/loss from real estate, which 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, net investment transactions outstanding, sundry receivables, cash and accounts payable approximate their carrying amounts due to their short-term nature.

(g) 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.

(h) 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.

2. Summary of Significant Accounting Policies (continued)

(i) 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.

(j) Financial Instruments

The Fund's financial instruments include cash, contributions receivable, receivable from the Province of Nova Scotia, investments, net investment transactions outstanding, accounts payable and real estate mortgages. It is management's opinion, unless otherwise noted, that the Fund is not exposed to significant interest, currency or credit risks from its financial instruments.

The Fund's short-term financial instruments, consisting of cash, contributions receivable, receivable from the Province of Nova Scotia, net investment transactions outstanding, and accounts payable are carried at cost which, due to their short-term nature, approximates their fair value. Investments and real estate mortgages are carried at fair value as described in notes 2 and 3 and are subject to interest, currency and credit risks as described in note 4.

3. Prior Period Adjustment:

Calculations of accrued income for fixed income securities, as stated in financial statements for prior years, were found to contain errors relating to real return bonds. These errors were corrected, and accrued investment income amounts were restated in these financial statements. The net assets available for benefits were reduced by $8.1 million as at March 31, 2003. The increase in net assets for years 2005 and 2004 was reduced by $1.5 million and $1.9 million respectively and is included in these financial statements.

Accordingly, certain comparative figures have been restated from those previously reported in order to properly account for accrued investment income.

4. 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.

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

	As at March 31, 2005		For the Year	As at March 31, 2004		For the Year
	Asset	%	Income (Loss)*	Asset	%	Income (Loss)* (Restated)
	(000's)		(000's)	(000's)		(000's)
Money market	$ 385,743	12.1	$ 7,726	$ 482,193	15.8	$ 9,372
Fixed income						
- Canadian	998,597	31.2	53,127	906,666	29.7	103,708
- US Funds	32,253	1.0	(1,511)	-	-	-
Equities						
- Canadian	986,797	30.8	163,797	895,737	29.4	265,374
- US	490,238	15.3	(3,288)	457,792	15.0	103,638
- Other foreign	199,209	6.2	(5,048)	236,508	7.8	59,632
Real Estate						
- Canadian	54,530	1.7	3,598	21,803	0.7	541
- Pooled fund	53,696	1.7	4,817	49,325	1.6	2,424
Derivatives	1,163	0.0	19,931	(403)	0.0	46,992
Other	-	-	58	-	-	43
	$ 3,202,226	100.0	$ 243,207	$ 3,049,621	100.0	$ 591,724

* Includes realized gains of $86.1 million ($47.8 million - 2004) and unrealized gains of $52.8 million ($413.0 million - 2004).

(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.

4. 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, 2005:

Notional Principal	Original Term	Credit Rating of Counter-party	Equity Index	BA Index	Market Value
(000's)					(000's)
$ 21,471	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	$ 736
51,279	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	194
82,535	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	233
$ 155,285					$ 1,163

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.

4. Investments and Derivatives (continued):

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

	As at March 31, 2005 Asset (000's)	%	For the Year Income* (000's)	As at March 31, 2004 Asset (000's)	%	For the Year Income (Loss)* (Restated) (000's)
Money market	$ 230,218	7.2	$ 4,197	$ 298,296	9.8	$ 5,182
Fixed income						
- Canadian	998,597	31.2	53,642	906,666	29.7	103,336
- US Funds	32,253	1.0	(1,511)	-	-	-
Equities						
- Canadian	1,143,485	35.7	186,742	1,079,231	35.4	316,928
- US	490,238	15.3	(3,288)	457,792	15.0	103,638
- Other foreign	199,209	6.2	(5,048)	236,508	7.8	59,632
Real Estate						
- Canadian	54,530	1.7	3,598	21,803	0.7	541
- Pooled fund	53,696	1.7	4,817	49,325	1.6	2,424
Other	-	-	58	-	-	43
	$ 3,202,226	100.0	$ 243,207	$ 3,049,621	100.0	$ 591,724

* Includes realized gains of $86.1 million ($47.8 million - 2004) and unrealized gains of $52.8 million ($413.0 million - 2004).

(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.

4. Investments and Derivatives (continued):

(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.

The following breakdown of fixed income securities as at March 31, 2005 is summarized in the following table:

	March 31, 2005						March 31, 2004	
	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	$ 385,743	$ -	$ -	$ -	$ 385,743	2.6	$ 482,193	2.2
Bonds and debentures	41,787	324,437	273,271	238,609	878,104	5.3	795,406	5.7
Real return bonds	-	-	-	120,493	120,493	3.0	111,260	3.6
US Fixed Income	581	7,289	21,416	2,967	32,253	6.7	-	-
Total	$ 428,111	$ 331,726	$ 294,687	$ 362,069	$ 1,416,593		$ 1,388,859	

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.

4. Investments and Derivatives (continued):

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.

(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, 2005 is summarized in the following table.

	March 31, 2005	**March 31, 2004 (Restated)**
Currency	(000's)	(000's)
Canada	$ 2,477,590	$ 2,360,136
United States	551,936	489,631
Euro Zone	44,977	69,085
Japan	56,176	39,857
United Kingdom	26,911	39,169
Other	49,503	60,154
Total	$ 3,207,093	$ 3,058,032

5. Real Estate Mortgages:

Real estate mortgages are carried at fair value and have various terms to maturity to 2015 with each mortgage secured by a specific real property. Nominal rates range from 5.3% to 6.9%

Scheduled principal repayments in each of the next five years, beginning April 1, 2005 are as follows:

2005	$ 269
2006	336
2007	1,154
2008	345
2009	366
Thereafter	14,535
Total	$17,005

The real estate mortgage payables are valued at fair value based on prevailing interest rates.

6. Actuarial Asset Value Adjustment:

The actuarial asset value adjustment is comprised of the following:

	2005	2004
	(000's)	(000's)
Service Buy-Back Receivable	$ 411	$ 600

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

7. Accrued Pension Benefits and Deficiency:

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, 2004 and issued their report in June 2005. The report indicated that the Plan had an unfunded liability of $542.7 million (December 31, 2003 - $492.8 million). A projection to March 31, 2005, applying the same assumptions, indicated an unfunded liability of $540.0 million (March 31, 2004 - $475.6 million).

The following table reflects the unfunded liability as at March 31, 2005 and as at March 31, 2004 after the prior period adjustment.

	2005	2004
	(000's)	(000's)
Actuarial value of assets:	$ 3,189,247	$ 3,036,376
Accrued pension benefits:	3,729,200	3,522,000
Unfunded liability:	($ 539,953)	($ 485,624)

Reconciliation of changes in accrued pension benefits:	2005	2004
	(000's)	(000's)
Accrued pension benefits at beginning of year	$3,522,000	$3,318,275
Interest on accrued pension benefits at 7.38%	259,836	244,806
Contributions and transfers from other pension plans	90,299	83,965
Current service cost in excess of contributions	18,500	24,000
Net impact of experience gains and losses relating to accrued pension benefits	10,778	30,716
Benefits paid	(164,074)	(155,366)
Refunds of contributions and interest and transfers to other pension plans	(8,139)	(24,396)
Accrued pension benefits at end of year	$3,729,200	$3,522,000

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.

7. Accrued Pension Benefits and Deficiency (continued):

The major economic and demographic assumptions used in the last valuation are as follows:

	Valuation December 31, 2004	**Valuation December 31, 2003**
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%	0.5% per annum real plus merit ranging from 0.0% to 2.5%
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 was one change in major actuarial assumptions and methodology used for December 31, 2004 as compared to December 31, 2003. Prior to 2004, the net assets available for benefits was subject to an actuarial asset value adjustment known as asset smoothing, which moderated the effects of market volatility on investment value. The adjustment was 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. The investment gain or loss in each year (relative to actuarial assumptions) was amortized over the current year and the following two years. The actuarial asset value adjustment reflected 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 was subject to the condition that the actuarial asset value would not be greater than the fair market value of investments. For the valuation as at December 31, 2004, this adjustment has been eliminated.

Elimination of smoothing will not require restatement of asset figures for the fiscal year ending March 31, 2004. The actuarial value of assets as at that date was equal to the market value of assets; therefore, there was no asset smoothing adjustment.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005

8. 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:

	2005	2004
	(000's)	(000's)
Plan Administration		
Professional services	$ 322	$ 170
Salaries	799	714
Supplies and services	303	333
Travel	7	10
Other	108	79
	$ 1,539	$ 1,306
Investment Expenses		
Investment management fees	6,138	5,782
Professional services	60	41
Salaries	376	318
Supplies and services	90	107
Travel	12	13
Other	18	24
	6,694	6,285
Total Operating Expenses	$ 8,233	$ 7,591

9. Related Party Transactions:

Investments include debentures of the Province of Nova Scotia with total market value of $18.3 million (0.6% of total assets) as at March 31, 2005 ($17.8 million (0.6% of total assets) as at March 31, 2004).