
**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE
SUPERANNUATION FUND
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008**



Office of the Auditor General

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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, 2008 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, 2008 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink, appearing to read 'JL Lapointe'.

Jacques Lapointe, CA•CIA
Auditor General

Halifax, Nova Scotia
June 24, 2008

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
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**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, 2008**

	2008	2007
	(000's)	(000's)
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments (Note 3)	\$ 3,619,754	\$ 3,898,160
Contributions receivable		
Employees'	2,855	2,290
Employers'	3,571	2,517
Accrued income	17,587	16,203
Net investment transactions outstanding	1,234	-
Prepayment and sundry receivables	1,632	2,598
Cash	<u>4,502</u>	<u>2,531</u>
Total assets	<u>3,651,135</u>	<u>3,924,299</u>
Liabilities		
Real estate mortgages (Note 4)	50,456	53,235
Accounts payable	17,292	17,993
Net investment transactions outstanding	<u>-</u>	<u>36,024</u>
Total liabilities	<u>67,748</u>	<u>107,252</u>
Net assets available for benefits	3,583,387	3,817,047
Actuarial asset value adjustment (Note 5)	<u>601</u>	<u>582</u>
Actuarial value of net assets available for benefits	<u>\$ 3,583,988</u>	<u>\$ 3,817,629</u>
ACCRUED PENSION BENEFITS NET OF DEFICIENCY		
Accrued pension benefits (Note 6)	\$ 4,496,218	\$ 4,265,104
Deficiency (Note 6)	<u>(912,230)</u>	<u>(447,475)</u>
Accrued pension benefits net of deficiency	<u>\$ 3,583,988</u>	<u>\$ 3,817,629</u>

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, 2008**

	2008	2007
	(000's)	(000's)
Increase In Assets		
Investment activities (Note 3)	\$ <u> -</u>	\$ <u>370,679</u>
Contributions		
Employers' – matched	64,218	55,054
Employees' – matched	64,218	55,054
Employees' – unmatched	4,135	1,271
Transfers from other pension plans	<u>5,524</u>	<u>2,361</u>
	<u>138,095</u>	<u>113,740</u>
Total increase in assets	<u>138,095</u>	<u>484,419</u>
Decrease In Assets		
Investment activities (Note 3)	143,559	-
Benefits paid	194,459	183,880
Operating expenses (Note 7)	9,843	9,313
Refunds of contributions and interest and transfers to other pension plans	<u>23,894</u>	<u>15,943</u>
Total decrease in assets	<u>371,755</u>	<u>209,136</u>
Increase (Decrease) in Net Assets	(233,660)	275,283
Net Assets Available for Benefits at Beginning of Year	<u>3,817,047</u>	<u>3,541,764</u>
Net Assets Available for Benefits at End of Year	<u>\$ 3,583,387</u>	<u>\$ 3,817,047</u>

See accompanying notes to consolidated financial statements.

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 that 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 7.4% of salary up to the Year's Maximum Pensionable Earnings (the "YMPE") and 9.6% of salary above the YMPE. The YMPE is a figure set annually by the Canada Pension Plan ("CPP").

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 \$16.7 million for the year ended March 31, 2008 (2007 - \$16.7 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 values 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 that has been recently acquired is based on the purchase price.

- (iv) The Fund holds bank-sponsored asset-backed commercial paper in its cash portfolios; however, exposure is limited to multi-seller, multi-asset conduits with global-style credit facilities, thus mitigating both credit and liquidity risk.

(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 note 2 and are subject to interest, currency and credit risks as described in note 3.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008**

3. Investments and Derivatives (continued)

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

	As at March 31, 2008		For the Year	As at March 31, 2007		For the Year
	Asset (000's)	%	Income (Loss)* (000's)	Asset (000's)	%	Income (Loss)* (000's)
Money market	\$ 325,459	9.0	\$ 13,369	\$ 261,758	6.7	\$ 13,151
Fixed income						
- Canadian	1,121,271	31.0	61,189	1,114,537	28.6	51,406
- US Funds	30,546	0.8	(4,512)	35,226	0.9	2,611
Equities						
- Canadian	791,541	21.9	8,157	855,745	22.0	113,572
- US	515,273	14.2	(120,245)	672,901	17.3	55,178
- Other foreign	594,810	16.4	(98,730)	703,287	18.0	91,866
Real Estate						
- Canadian	181,657	5.0	13,095	181,464	4.7	17,010
- Pooled fund	81,795	2.3	10,819	71,565	1.8	11,086
Derivatives	(22,598)	(0.6)	(27,040)	1,677	0.0	14,678
Other	-	-	339	-	-	121
	<u>\$ 3,619,754</u>	<u>100.0</u>	<u>\$ (143,559)</u>	<u>\$ 3,898,160</u>	<u>100.0</u>	<u>\$ 370,679</u>

* Includes realized gains of \$166.2 million (\$169.6 million - 2007) and unrealized losses of \$430.5 million (gains of \$75.5 million - 2007).

- (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.

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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.

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 derivative contracts outstanding as at March 31, 2008:

Money market-to-equity swap contracts

<u>Notional Principal</u>	<u>Original Term</u>	<u>Credit Rating of Counter-party</u>	<u>Equity Index</u> (000's)	<u>BA Index</u>	<u>Market Value</u>
\$ 64,244	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	\$ 174
65,879	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	812
<u>79,828</u>	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	<u>(3,101)</u>
<u>\$ 209,951</u>					<u>\$ (2,115)</u>

Currency forwards \$ (20,483)

Notional amounts of the money market-to-equity 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.

Foreign currency forwards have been used during the year to manage the currency exposure of investments held in foreign currencies.

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3. Investments and Derivatives (continued):

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

	As at March 31, 2008		For the Year		As at March 31, 2007		For the Year	
	Asset	%	Income*	Asset	%	Income *		
	(000's)		(000's)	(000's)		(000's)		
Money market	\$ 115,131	3.2	\$ 4,350	\$ 65,606	1.7	\$ 6,266		
Fixed income								
- Canadian	1,121,271	31.0	61,189	1,114,537	28.6	51,406		
- US Funds	30,546	0.8	(4,512)	35,226	0.9	2,611		
Equities								
- Canadian	999,754	27.6	21,327	1,053,574	27.0	135,135		
- US	507,988	14.0	(123,994)	672,901	17.3	55,178		
- Other foreign	581,612	16.1	(126,172)	703,287	18.0	91,866		
Real Estate								
- Canadian	181,657	5.0	13,095	181,464	4.7	17,010		
- Pooled fund	81,795	2.3	10,819	71,565	1.8	11,086		
Other	-	0.0	339	-	0.0	121		
	<u>\$ 3,619,754</u>	<u>100.0</u>	<u>\$ (143,559)</u>	<u>\$ 3,898,160</u>	<u>100.0</u>	<u>\$ 370,679</u>		

* Includes realized gains of \$166.2 million (\$169.6 million - 2007) and unrealized losses of \$430.5 million (gains of \$75.5 million - 2007).

(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.

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3. 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, 2008 is summarized in the following table:

	March 31, 2008 (000's)					Average effective yield	March 31, 2007 (000's)	
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total		Total	Average effective yield
Money market	\$ 287,609	\$ 37,850	\$ -	\$ -	\$ 325,459	3.8	\$ 261,758	4.5
Bonds and debentures	26,983	\$414,303	\$ 191,371	\$ 360,142	992,799	4.9	989,566	5.0
Real return bonds	-	-	-	128,472	128,472	2.8	124,971	2.9
US Fixed Income	<u>2,566</u>	<u>7,362</u>	<u>19,733</u>	<u>885</u>	<u>30,546</u>	8.7	<u>35,226</u>	7.2
Total	<u>\$ 317,158</u>	<u>\$ 459,515</u>	<u>\$ 211,104</u>	<u>\$ 489,499</u>	<u>\$ 1,477,276</u>		<u>\$ 1,411,521</u>	

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3. Investments and Derivatives (continued):

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.

(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 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.

The Plan's currency exposure from net investment assets as at March 31, 2008, after the effect of derivatives, is summarized in the following table.

Currency	March 31, 2008	March 31, 2007
	(000's)	(000's)
Canada	\$ 2,461,650	\$ 2,407,839
United States	573,547	770,726
Euro Zone	203,849	223,758
Japan	132,259	168,515
United Kingdom	93,867	127,314
Other	126,561	129,593
Total	<u>\$ 3,591,733</u>	<u>\$ 3,827,745</u>

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4. Real Estate Mortgages:

Real estate mortgages are carried at fair value and have various terms to maturity to 2018 with each mortgage secured by a specific real property. Nominal rates range from 5.0% to 8.0%

Scheduled principal repayments in each of the next five years, beginning April 1, 2008 are as follows:

2008	\$ 1,531
2009	5,771
2010	830
2011	10,117
2012	2,940
Thereafter	<u>26,678</u>
Total	<u>\$ 47,867</u>

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

5. Actuarial Asset Value Adjustment:

The actuarial asset value adjustment is comprised of the following:

	2008	2007
	(000's)	(000's)
Service Buy-Back Receivable	<u>\$ 601</u>	<u>\$ 582</u>

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

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6. 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, Mercer, performed a valuation as at December 31, 2007 and issued their report in June 2008. The report indicated that the Plan had an unfunded liability of \$732.7 million (December 31, 2006 - \$436.4 million). A projection to March 31, 2008, applying the same assumptions, indicated an unfunded liability of \$912.2 million (March 31, 2007 - \$447.5 million).

The following table reflects the unfunded liability as at March 31, 2008 and as at March 31, 2007.

	2008	2007
	(000's)	(000's)
Actuarial value of assets:	\$ 3,583,988	\$ 3,817,629
Accrued pension benefits:	<u>4,496,218</u>	<u>4,265,104</u>
Unfunded liability:	<u>(\$ 912,230)</u>	<u>(\$ 447,475)</u>

2008	2007
(000's)	(000's)

Reconciliation of changes in accrued pension benefits:

Accrued pension benefits at beginning of year	\$ 4,265,104	\$ 3,952,745
Interest on accrued pension benefits at 6.86% (7.38% in 2007)	292,586	291,614
Contributions and transfers from other pension plans	138,095	113,740
Current service cost in excess of contributions	2,909	16,803
Net impact of changes in assumptions	-	83,834
Net impact of experience gains and losses relating to accrued pension benefits	15,877	6,191
Benefits paid	(194,459)	(183,880)
Refunds of contributions and interest and transfers to other pension plans	<u>(23,894)</u>	<u>(15,943)</u>
Accrued pension benefits at end of year	<u>\$ 4,496,218</u>	<u>\$ 4,265,104</u>

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6. Accrued Pension Benefits and Deficiency (continued):

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:

	Valuation <u>December 31, 2007</u>	Valuation <u>December 31, 2006</u>
Inflation	2.5% per annum	2.5% per annum
Average Salary Increase	Inflation plus merit ranging from 0.0% to 2.5%, per annum	Inflation plus merit ranging from 0.0% to 2.5%, per annum
Real Rate of Return on Investments	4.25% per annum	4.25% per annum
Average Retirement Age	35% - earliest age for unreduced pension, but not before age 54; 65% - earlier of age 60 and 35 years service	35% - earliest age for unreduced pension, but not before age 54; 65% - earlier of age 60 and 35 years service
Mortality	UP-94 projected to 2015 using scale 'AA'	UP-94 projected to 2015 using scale 'AA'

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7. 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:

	2008	2007
	(000's)	
	(000's)	
Plan Administration		
Professional services	\$ 203	\$ 169
Salaries	998	1,010
Supplies and services	197	225
Travel	21	17
Other	<u>175</u>	<u>197</u>
	<u>\$ 1,594</u>	<u>\$ 1,618</u>
Investment Expenses		
Investment management fees	\$ 7,718	\$ 7,294
Professional services	141	119
Salaries	233	196
Supplies and services	17	18
Travel	6	6
Other	<u>134</u>	<u>62</u>
	<u>\$ 8,249</u>	<u>\$ 7,695</u>
Total Operating Expenses	<u>\$ 9,843</u>	<u>\$ 9,313</u>

8. Related Party Transactions:

Investments include debentures of the Province of Nova Scotia with total market value of \$14.0 million (0.4% of total assets) as at March 31, 2008 (\$14.4 million (0.4% of total assets) as at March 31, 2007).