Financial Statements of

NOVA SCOTIA PENSION AGENCY

Years ended March 31, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

To the Minister of Finance

We have audited the accompanying financial statements of the Nova Scotia Pension Agency which comprises the statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of operations and accumulated surplus, changes in net financial assets and cash flows for the years ended March 31, 2012 and March 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Nova Scotia Pension Agency as at March 31, 2012, March 31, 2011 and April 1, 2010, and its results of operations and its changes in net financial assets and cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Accountants

June 29, 2012

Halifax, Canada

NOVA SCOTIA PENSION AGENCY

Statements of Financial Position

March 31, 2012 and March 31, 2011 and April 1, 2010

	March 31, 2012	March 31, 2011	April 1, 2010
Financial assets			
Cash	$ 300	$ 300	$ 300
Accounts receivable - operating expenses (note 3)	7,153,605	6,573,463	5,723,811
Accounts receivable - investment management fees (note 4)	12,469,095	5,495,967	4,992,366
Advances	-	-	4,151
	$ 19,623,000	$ 12,069,730	$ 10,720,628
Financial liabilities			
Accounts payable	$ 279,496	$ 282,110	$ 232,744
Accrued investment management fees (note 5)	3,631,215	5,495,967	4,472,028
Due to Province of Nova Scotia, advances (note 6)	15,712,289	6,291,653	6,015,856
	19,623,000	12,069,730	10,720,628
Commitments (note 7)			
Subsequent event (note 11)			
Net financial assets being accumulated surplus	$ -	$ -	$ -

See accompanying notes to financial statements.

NOVA SCOTIA PENSION AGENCY

Statements of Operations and Accumulated Surplus

Years ended March 31, 2012 and 2011

	Budget	2012	2011
Recoveries from pension plans (Schedule)	$ 49,166,689	$ 40,695,168	$ 33,931,686
Operating expenses:			
Salaries and benefits	4,182,383	3,980,700	3,983,062
Travel	158,150	77,950	68,042
Professional services	2,646,800	2,028,500	1,317,361
Investment management and custodian fees	40,607,500	33,516,250	27,201,343
Supplies and services	823,600	577,416	773,631
Other	748,256	514,352	588,247
	49,166,689	40,695,168	33,931,686
Annual operating surplus	-	-	-
Accumulated surplus, beginning of year	-	-	-
Accumulated surplus, end of year	$ -	$ -	$ -

See accompanying notes to financial statements.

NOVA SCOTIA PENSION AGENCY

Statements of Changes in Net Financial Assets

Years ended March 31, 2012 and 2011

	Budget 2012	Actual 2012	Actual 2011
Annual operating surplus	$ -	$ -	$ -
Changes in net financial assets	-	-	-
Net financial assets, beginning of year	-	-	-
Net financial assets, end of year	$ -	$ -	$ -

See accompanying notes to unaudited financial statements.

NOVA SCOTIA PENSION AGENCY

Statements of Cash Flows

Years ended March 31, 2012 and 2011

	2012	2011
Cash provided by (used in):		
Annual operating surplus	$ -	$ -
Change in non-cash operating working capital:		
Accounts receivable - operating surplus	(580,142)	(849,652)
Accounts receivable - investment management fees	(6,973,128)	(503,601)
Decrease in advances	-	4,151
Increase (decrease) in accounts payable	(2,614)	49,366
Increase (decrease) in accrued investment management fees	(1,864,752)	1,023,939
Due to Province of Nova Scotia	9,420,636	275,797
Increase (decrease) in cash	-	-
Cash, beginning of year	300	300
Cash, end of year	$ 300	$ 300

See accompanying notes to financial statements.

NOVA SCOTIA PENSION AGENCY

Notes to Financial Statements

Years ended March 31, 2012 and 2011

Nova Scotia Pension Agency (the "Agency") was established on February 10, 2006 pursuant to Order in Council 2006-97. The Agency is responsible for providing pension administration and investment services as directed by Teachers' Pension Plan Trustee Inc. as trustee for the Nova Scotia Teachers' Pension Plan and the Minister of Finance as trustee for the Nova Scotia Public Service Superannuation Plan, Members of the Legislative Assembly Pension Plan and the Sydney Steel Corporation Superannuation Fund.

On April 1, 2011, the Agency adopted the Canadian public sector accounting standards ("PSAB"). These are the first financial statements of the Agency prepared in accordance with PSAB. Prior to 2012, the financial statements were prepared in accordance with Part V of the CICA Handbook.

In accordance with the transitional provisions in PSAB, the Agency has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is April 1, 2010 and all comparative information provided has been presented by applying PSAB.

The impact of the transition of the Agency's financial statements to PSAB has been summarized in note 2.

1. Significant accounting policies:

(a) Basis of accounting:

The Agency follows the accrual method of accounting for recoveries and expenses. Recoveries are normally recognized in the year in which they are earned and measurable. Expenses are recognized as they are incurred and measurable as a result of receipt of goods or services and/or the creation of a legal obligation to pay. Recoveries and expenses of investment management fees related to certain funds holding infrastructure investments are accounted for when recognized by the respective fund. The Agency is funded from the pension plans on a full cost recovery basis.

(b) Accounts receivables, accounts payables and due to the Province of Nova Scotia:

Accounts receivables, accounts payables and accruals and amounts due to the Province of Nova Scotia are recorded at amortized cost.

(c) Revenue recognition:

Revenue of the Agency is derived from the four provincial pension plans and represents the recovery of 100% of the expenses allocated to the Agency.

1. Significant accounting policies (continued):

(d) Government transfers:

Government transfers are recognized in the financial statements in the period in which events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

(e) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(f) Future changes in accounting policies:

The Public Sector Accounting Board has issued Section PS 3410 - *Government Transfers* effective for fiscal years beginning on or after April 1, 2012. This section revises and replaces existing Section PS 3410 of the same name and can be applied either retrospectively or prospectively. Section PS 3410 - *Government Transfers* establishes guidance on the recognition, presentation and disclosure of government transfers made to individuals, organizations and other governments. The new standard addresses this with more guidance specifically from the perspectives of both transferring governments and recipient governments. The impact of the adoption of the revised PS 3410 - *Government Transfers* is being evaluated by management and is not known or reasonably estimable at this time.

2. Change in accounting policy:

a) Basis of presentation:

The adoption of PSAB had no impact on the Agency's 2010 accumulated surplus or annual operating surplus for the year ended March 31, 2011. Accordingly, there were no adjustments to the balance of accumulated surplus as at April 1, 2010 or the 2011 annual operating surplus as a result of implementing the accounting changes.

The Agency did not elect to use any exemptions allowed in accordance with the transitional provisions of PSAB.

2. Change in accounting policy (continued):

b) Early adoption of accounting standards:

At the time of transition, the Agency has early adopted the following accounting standards on a prospective basis. These standards have been reflected prospectively in the financial statements for the current year:

(i) PS 3450 - *Financial Instruments:*

The Agency elected to early adopt Section PS 3450 - *Financial Instruments* ("Section PS 3450") effective for the year ended March 31, 2012. The mandatory application date is for fiscal years beginning on or after April 1, 2012. Section PS 3450 establishes standards for recognizing and measuring financial assets, financial liabilities and non financial derivatives. Financial instruments include primary instruments (such as receivables, payables and equity instruments) and derivative financial instruments (such as financial options, futures and forwards, interest rate swaps and currency swaps). Financial instruments are assigned to one of two measurement categories: fair value, or cost or amortized cost. Almost all derivatives, including embedded derivatives that are not closely related to the host contract, are measured at fair value. Fair value measurement also applies to portfolio investments in equity instruments that are quoted in an active market. Other financial assets and financial liabilities are generally measured at cost or amortized cost. Until an item is derecognized, gains and losses arising due to fair value remeasurement are reported in the statement of remeasurement gains and losses. Budget-to-actual comparisons are not required within the statement of remeasurement gains and losses. When the reporting entity defines and implements a risk management or investment strategy to manage and evaluate the performance of a group of financial assets, financial liabilities or both on a fair value basis, the entity may elect to include these items in the fair value category. New requirements clarify when financial liabilities are derecognized. The offsetting of a financial liability and a financial asset is prohibited in absence of a legally enforceable right to set off the recognized amounts and an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Section PS 3450 outlines new disclosure requirements of items reported on and the nature and extent of risks arising from financial instruments

Upon adoption of this standard, the Agency has recorded its financial assets and financial liabilities at cost or amortized cost.

There is no other material impact on the financial statements as a result of adopting this standard.

2. Change in accounting policy (continued):

(ii) PS 2601 - *Foreign Currency Translation:*

The Agency has elected to early adopt ("PSAB") Section PS 2601 – *Foreign Currency Translation* ("Section 2601") effective for the year ended March 31, 2012. The mandatory application date of Section PS 2601 is for fiscal years beginning on or after April 1, 2012. This Section revises and replaces Section PS 2600 - *Foreign Currency Translation*. Under Section PS 2601, the definition of currency risk is amended to conform to the definition in Section PS 3450 – *Financial Instruments*. The exception to the measurement of items on initial recognition that applies when synthetic instrument accounting is used is removed. At each financial statement date subsequent to initial recognition, non monetary items denominated in a foreign currency that are included in the fair value category in accordance with Section PS 3450 are adjusted to reflect the exchange rate at that date. The deferral and amortization of foreign exchange gains and losses relating to long term foreign currency denominated monetary items is discontinued. Until the period of settlement, exchange gains and losses are recognized in the statement of remeasurement gains and losses rather than the statement of operations. Hedge accounting and the presentation of items as synthetic instruments are removed.

There is no material impact on the financial statements a result of adopting this standard.

3. Accounts receivable - operating expenses:

Accounts receivable - operating expenses represent estimated annual operating expenses to be recovered from pension plans.

	March 31, 2012	March 31, 2011	April 1, 2010
Due from Teachers' Pension Plan	$ 3,637,496	$ 3,369,539	$ 2,966,711
Due from Public Service Superannuation Plan	3,516,109	3,203,924	2,757,100
	$ 7,153,605	$ 6,573,463	$ 5,723,811

4. Accounts receivable - investment management fees:

Accounts receivable - investment management fees represent estimated recoveries from pension plans for investment management fees.

	March 31, 2012	March 31, 2011	April 1 2010
Due from Teachers' Pension Plan	$ 6,702,567	$ 2,894,880	$ 2,769,437
Due from Public Service Superannuation Plan	5,766,528	2,601,087	2,222,929
	$ 12,469,095	$ 5,495,967	$ 4,992,366

5. Accrued investment management fees:

Accrued investment management fees represent investment management fees that have been incurred, but not yet paid by the Department of Finance

	March 31, 2012	March 31, 2011	April 1 2010
Teachers' Pension Plan	$ 1,832,407	$ 2,894,880	$ 2,465,063
Public Service Superannuation Plan	1,798,808	2,601,087	2,006,965
	$ 3,631,215	$ 5,495,967	$ 4,472,028

6. Due to Province of Nova Scotia, advances:

Due to Province of Nova Scotia, advances relates to investment management fees and operating expenses that have been paid for by the Province on behalf of the respective pension plans. These advances will be reimbursed through the Agency from the pension plans as follows :

	March 31, 2012	March 31, 2011	April 1 2010
Teachers' Pension Plan	$ 8,411,167	$ 3,228,949	$ 3,112,734
Public Service Superannuation Plan	7,301,122	3,062,704	2,903,122
	$ 15,712,289	$ 6,291,653	6,015,856

7. Commitments:

As at March 31, 2012, the Agency was contractually obligated under various operating and occupancy leases. Future minimum annual lease payments over the next five years are as follows.

2013	$ 404,531
2014	385,451
2015	386,609
2016	386,715
2017	257,810
	$ 1,821,116

8. Related party transactions:

Included in the financial statements of the Agency are transactions with various provincial government departments. Funding of expenses for the Agency is provided initially by the Department of Finance on a full recovery basis. During the year, significant related party purchases include:

	2012	2011
Department of Finance	$ 432,258	$ 419,452
Department of Justice	100,000	110,712
Communications Nova Scotia	99,712	67,291
Department of Transportation and Infrastructure Renewal	808	22,762
Chief Information Office	16,113	12,576
Intergovernmental Affairs	10	-
Public Service Commission	2,476	9,097
Department of Economic & Rural Development	-	1,330
Department of Tourism, Culture & Heritage	-	540
Capital Health Authority	-	40
	$ 651,377	$ 643,800

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. Employee pension plan:

Employees of the Agency participate in the Nova Scotia Public Service Superannuation Plan (the "Plan"), a contributory defined benefit pension plan, which provides pension benefits based on length of service and earnings. Contributions to the Plan are required by both the employees and the employer. Total employer contributions for 2012 were $279,751 (2011 - $283,073) and are recognized as an expense in the year. The Agency is not responsible for any under-funded liability, nor does the Agency have any access to any surplus that may arise in the Plan.

The date of the last actuarial valuation of the Plan was December 31, 2011. An extrapolation of the entire multi-employer pension is as follows:

	2012	2011
Actuarial value of net assets	$4,405,927,000	$4,388,119,000
Actuarial value adjustment	(35,922,000)	(86,159,000)
Fair value of net assets available for benefits	4,370,005,000	4,301,960,000
Accrued pension obligation	4,541,817,000	4,240,670,000
Surplus (deficit) of net assets available for benefits over accrued pension obligation	$ (171,812,000)	$ 61,290,000

10. Fair value of financial instruments:

(a) Associated risks:

Risk management relates to the understanding and active management of risks associated with all areas of the entity and the associated operating environment. The Agency's financial instruments are primarily exposed to credit and liquidity risk.

(i) Credit risk:

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Agency. The maximum credit risk exposure for all of the Agency's current financial assets is the carrying value of those assets. It is management's opinion that the Agency is not exposed to significant credit risk arising from financial instruments.

(ii) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity requirements are managed through the receipt of recoveries from pension plans. In the normal course of business the Agency enters into contracts that give rise to commitments for future payments which may also impact the Agency's liquidity. The Agency also maintains cash on hand for liquidity purposes and to pay accounts payable and accrued liabilities.

11. Subsequent event:

In accordance with the Financial Measures (2012) Act dated April 12, 2012, the Nova Scotia Pension Services Corporation Act will devolve the Agency from the government by creating a non-profit statutory corporation that is equally owned by the trustees of the Nova Scotia Teachers' Pension Plan and the Nova Scotia Public Service Superannuation Plan. This change means governance by plan trustees for the benefit of plan members. There will be no change in the degree of controls or accountability. The new non-profit corporation will provide pension administration and investment administration services for all plans currently serviced by the Agency. The devolution of the Agency is a collaborative undertaking led by the government, the Teachers' Pension Plan Trustee Inc., the Nova Scotia Teachers' Union, and the Nova Scotia Government & General Employees Union.

NOVA SCOTIA PENSION AGENCY

Schedule of Recoveries by Fund

Years ended March 31, 2012 and 2011

	Budget	2012	2011
Teachers' Pension Plan:			
Salaries and benefits	$ 2,035,272	$ 1,922,334	$ 1,928,497
Travel	76,951	53,205	40,377
Professional services	1,394,901	1,011,031	646,538
Investment management fees	19,745,000	16,425,156	14,505,286
Supplies and services	491,836	381,258	468,022
Other	368,918	253,033	286,104
	24,112,878	20,046,017	17,874,824
Nova Scotia Public Service Superannuation Plan:			
Salaries and benefits	2,057,844	1,970,789	1,954,410
Travel	79,467	24,111	27,111
Professional services	1,216,787	983,906	642,318
Investment management fees	20,862,500	17,091,094	12,696,057
Supplies and services	319,082	185,293	292,408
Other	364,694	248,857	287,678
	24,900,374	20,504,050	15,899,982
Sydney Steel Corporation Superannuation Fund:			
Salaries and benefits	81,872	70,720	91,858
Travel	1,589	507	508
Professional services	23,860	25,594	17,610
Supplies and services	11,631	8,832	12,057
Other	12,847	10,091	13,313
	131,799	115,744	135,346
Members of the Legislative Assembly Pension Plan:			
Salaries and benefits	7,395	16,857	8,297
Travel	143	127	46
Professional services	11,252	7,970	10,895
Supplies and services	1,051	2,032	1,144
Other	1,797	2,371	1,152
	21,638	29,357	21,534
Total recoveries from pension plans	$ 49,166,689	$ 40,695,168	$ 33,931,686