

Financial Statements of

NOVA SCOTIA PENSION AGENCY

Year ended March 31, 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 comprise the statement of financial position as at March 31, 2011, and the statement of operations for the year then ended, 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 generally accepted accounting principles, 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit 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 is sufficient and appropriate to provide a basis for our audit opinion.

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, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

June 24, 2011

Halifax, Canada

NOVA SCOTIA PENSION AGENCY

Statement of Financial Position

March 31, 2011, with comparative figures for 2010

| | 2011 | 2010 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$ 300 | \$ 300 |
| Accounts receivable - operating expenses (note 2) | 6,573,463 | 5,723,811 |
| Accounts receivable - investment management fees (note 3) | 5,495,967 | 4,992,366 |
| Advances | - | 4,151 |
| | \$ 12,069,730 | \$ 10,720,628 |

Liabilities

| | | |
|--|----------------------|----------------------|
| Current liabilities: | | |
| Accounts payable | \$ 282,110 | \$ 232,744 |
| Accrued investment management fees | 5,495,967 | 4,472,028 |
| Due to Province of Nova Scotia, advances | 6,291,653 | 6,015,856 |
| Commitments (note 4) | | |
| | \$ 12,069,730 | \$ 10,720,628 |

See accompanying notes to financial statements.

NOVA SCOTIA PENSION AGENCY

Statement of Operations

Year ended March 31, 2011, with comparative figures for 2010

| | 2011 | 2010 |
|--|---------------|---------------|
| Recoveries from pension plans (Schedule) | \$ 32,512,715 | \$ 26,417,303 |
| Operating expenses: | | |
| Salaries and benefits | 3,983,062 | 3,701,314 |
| Travel | 68,042 | 90,140 |
| Professional services | 1,317,361 | 1,039,388 |
| Investment management and custodian fees | 25,782,372 | 20,544,911 |
| Supplies and services | 773,631 | 541,190 |
| Other | 588,247 | 500,360 |
| | 32,512,715 | 26,417,303 |
| Excess of recoveries over expenses | \$ - | \$ - |

See accompanying notes to financial statements.

NOVA SCOTIA PENSION AGENCY

Notes to Financial Statements

Year ended March 31, 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.

1. Significant accounting policies:

(a) Basis of presentation:

The policies used in preparing the Agency's financial statements are in accordance with Canadian generally accepted accounting principles. Expenses and recoveries are recognized on an accrual basis. The Agency is funded from the pension plans on a full cost recovery basis.

(b) Statement of cash flows:

A statement of cash flows has not been presented as it would not provide additional meaningful information.

(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.

(d) 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.

(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.

NOVA SCOTIA PENSION AGENCY

Notes to Financial Statements (continued)

Year ended March 31, 2011

2. Accounts receivable - operating expenses:

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

| | 2011 | 2010 |
|---|---------------------|---------------------|
| Due from Teachers Pension Plan | \$ 3,369,539 | \$ 2,966,711 |
| Due from Public Service Superannuation Plan | 3,203,924 | 2,757,100 |
| | <u>\$ 6,573,463</u> | <u>\$ 5,723,811</u> |

3. Accounts receivable - investment management fees:

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

| | 2011 | 2010 |
|---|---------------------|---------------------|
| Due from Teachers Pension Plan | \$ 2,894,880 | \$ 2,769,437 |
| Due from Public Service Superannuation Plan | 2,601,087 | 2,222,929 |
| | <u>\$ 5,495,967</u> | <u>\$ 4,992,366</u> |

4. Commitments:

As at March 31, 2011, the Agency was contractually obligated under various operating and occupancy leases. Future minimum annual lease payments over the next five years are as follows.

| | |
|------|---------------------|
| 2012 | \$ 401,444 |
| 2013 | 388,695 |
| 2014 | 369,615 |
| 2015 | 370,773 |
| 2016 | 370,879 |
| | <u>\$ 1,901,406</u> |

NOVA SCOTIA PENSION AGENCY

Notes to Financial Statements (continued)

Year ended March 31, 2011

5. 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:

| | 2011 | 2010 |
|---|------------|------------|
| Department of Finance | \$ 419,452 | \$ 416,837 |
| Department of Justice | 110,712 | 117,000 |
| Communications Nova Scotia | 67,291 | 46,253 |
| Department of Transportation and Infrastructure Renewal | 22,762 | 18,929 |
| Chief Information Office | 12,576 | 77,697 |
| Office of the Auditor General | - | 5,500 |
| Department of Natural Resources (IT CSU) | - | 120 |
| Public Service Commission | 9,097 | 7,120 |
| Department of Economic & Rural Development | 1,330 | - |
| Nova Scotia Community College | - | 964 |
| Department of Tourism, Culture & Heritage | 540 | - |
| Capital Health Authority | 40 | - |
| | \$ 643,800 | \$ 690,420 |

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.

6. 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 2011 were \$283,073 (2010 - \$271,854) 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.

NOVA SCOTIA PENSION AGENCY

Notes to Financial Statements (continued)

Year ended March 31, 2011

7. Fair value of financial instruments:

(a) Fair value of financial assets and financial liabilities:

The carrying value of all of the Agency's financial instruments, including its current assets and current liabilities, approximate their fair value due to the relatively short periods to maturity of these items.

(b) 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 Corporation also maintains cash on hand for liquidity purposes and to pay accounts payable and accrued liabilities.

(c) Capital risk management:

The Agency operates on a full cost recovery basis with the pension plan expenditures being fully reimbursed to the Department of Finance on an accrual basis. As such, the Agency does not have any accumulated equity. During the year, the liabilities of the Agency increased by \$1,349,102 (2010 - \$1,501,318).

NOVA SCOTIA PENSION AGENCY

Schedule of Recoveries by Fund

Year ended March 31, 2011, with comparative figures for 2010

| | 2011 | 2010 |
|---|---------------|---------------|
| Teachers' Pension Plan: | | |
| Salaries and benefits | \$ 1,928,497 | \$ 1,835,582 |
| Travel | 40,377 | 60,012 |
| Professional services | 646,538 | 538,799 |
| Investment management fees | 13,725,605 | 11,216,927 |
| Supplies and services | 468,022 | 280,761 |
| Other | 286,104 | 251,558 |
| | 17,095,143 | 14,183,639 |
| Nova Scotia Public Service Superannuation Plan: | | |
| Salaries and benefits | 1,954,410 | 1,769,225 |
| Travel | 27,111 | 29,366 |
| Professional services | 642,318 | 474,239 |
| Investment management fees | 12,056,767 | 9,327,984 |
| Supplies and services | 292,408 | 247,311 |
| Other | 287,678 | 236,959 |
| | 15,260,692 | 12,085,084 |
| Sydney Steel Corporation Superannuation Fund: | | |
| Salaries and benefits | 91,858 | 88,650 |
| Travel | 508 | 700 |
| Professional services | 17,610 | 14,085 |
| Supplies and services | 12,057 | 12,050 |
| Other | 13,313 | 10,908 |
| | 135,346 | 126,393 |
| Members of the Legislative Assembly Pension Plan: | | |
| Salaries and benefits | 8,297 | 7,857 |
| Travel | 46 | 62 |
| Professional services | 10,895 | 12,266 |
| Supplies and services | 1,144 | 1,068 |
| Other | 1,152 | 934 |
| | 21,534 | 22,187 |
| Total recoveries from pension funds | \$ 32,512,715 | \$ 26,417,303 |