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**PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA PUBLIC SERVICE  
SUPERANNUATION FUND  
CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2010**

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## Auditors' report

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To the Minister of Finance, Province of Nova Scotia

We 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, 2010 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. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 our 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, 2010 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Halifax, Nova Scotia  
June 16, 2010

*Grant Thornton LLP*

Chartered accountants

**PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND  
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MARCH 31, 2010**

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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, 2010**

	2010	2009
	(000's)	(000's)
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>		
<b>Assets</b>		
Investments (Note 3)	\$ 3,466,144	\$ 2,920,087
Contributions receivable		
Employees'	4,370	3,403
Employers'	4,874	3,889
Accrued income	14,330	15,496
Prepayment and sundry receivables	1,623	1,908
Cash	<u>33,650</u>	<u>46,204</u>
Total assets	<u>3,524,991</u>	<u>2,990,987</u>
<b>Liabilities</b>		
Real estate mortgages (Note 5)	49,451	49,288
Accounts payable	12,030	15,242
Net investment transactions outstanding	<u>19,187</u>	<u>28,853</u>
Total liabilities	<u>80,668</u>	<u>93,383</u>
<b>Net assets available for benefits</b>	3,444,323	2,897,604
Actuarial asset value adjustment (Note 7)	<u>1,026</u>	<u>751</u>
<b>Actuarial value of net assets available for benefits</b>	<u>\$ 3,445,349</u>	<u>\$ 2,898,355</u>
<b>ACCRUED PENSION BENEFITS NET OF DEFICIENCY</b>		
Accrued pension benefits (Note 8)	\$ 4,961,851	\$ 4,768,219
Deficiency (Note 8)	<u>(1,516,502)</u>	<u>(1,869,864)</u>
<b>Accrued pension benefits net of deficiency</b>	<u>\$ 3,445,349</u>	<u>\$ 2,898,355</u>

Approved:

ORIGINAL SIGNED BY GRAHAM STEELE

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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, 2010**

	2010	2009
	(000's)	(000's)
<b>Increase In Assets</b>		
Investment activities (Note 3)	\$ 623,733	\$ -
Contributions		
Employers' – matched	80,593	70,088
Employees' – matched	80,593	70,088
Employees' – unmatched	5,912	1,523
Transfers from other pension plans	<u>6,993</u>	<u>4,954</u>
	<u>174,091</u>	<u>146,653</u>
Total increase in assets	<u>797,824</u>	<u>146,653</u>
<b>Decrease In Assets</b>		
Investment activities (Note 3)	-	597,933
Benefits paid	219,044	205,821
Operating expenses (Note 9)	12,036	10,885
Refunds of contributions and interest and transfers to other pension plans	<u>20,025</u>	<u>17,797</u>
Total decrease in assets	<u>251,105</u>	<u>832,436</u>
<b>Increase ( Decrease ) in Net Assets</b>	546,719	(685,783)
<b>Net Assets Available for Benefits at Beginning of Year</b>	<u>2,897,604</u>	<u>3,583,387</u>
<b>Net Assets Available for Benefits at End of Year</b>	<u>\$ 3,444,323</u>	<u>\$ 2,897,604</u>

See accompanying notes to consolidated financial statements.

**PROVINCE OF NOVA SCOTIA  
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2010**

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**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 Minister of Finance is the Trustee of the Fund.

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 Plan is funded by employee and matching employer contributions of 8.4% of salary up to the Year's Maximum Pensionable Earnings (the "YMPE") and 10.9% 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 times the average pensionable salary of the best five years. 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 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;
- 35 years of service.

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 \$17.2 million for the year ended March 31, 2010 (2009 - \$17.0 million).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**2. Summary of Significant Accounting Standards**

(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 real estate investments through wholly-owned subsidiaries. The consolidated financial statements include the financial statements of the Fund 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 fair 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 fair value of investments.

(d) Investments:

- (i) Investments are reported as of trade date and are stated at fair value as at year-end. Fair 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 evaluators.

- (ii) The derivative contracts held by the Fund are stated at fair value and 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.

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**2. Summary of Significant Accounting Standards (continued)**

(d) Investments (continued):

- (iii) Real estate is comprised of income producing properties and real estate pooled fund. Unless recently acquired, 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. There has been no impact on the value of these assets at March 31, 2010.

(e) Investment Income/Loss:

Investment income/loss is reflected in investment activities and includes interest, dividends and operating income/loss from real estate, which is recorded on an 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 Fund 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.

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**2. Summary of Significant Accounting Standards (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, investments, net investment transactions outstanding, accounts payable and real estate mortgages.

Due to their short-term nature, the Fund's short-term financial instruments, consisting of cash, contributions receivable, and accounts payable, are carried at cost which approximate their fair values. Investments and real estate mortgages are carried at fair values as described in Notes 2 and 5 and are subject to interest, market, credit, currency, price and liquidity risks as described in Note 3.

(k) Adoption of New Accounting Standards:

i) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, EIC173 - In January 2009, the Emerging Issues Committee ("EIC") issued Abstract No. 173 ("EIC - 173"). EIC-173 requires an entity to take into account its own credit risk and that of the relevant counterparty(s) when determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC, which is effective November 1, 2008, had no impact on the Fund's financial statements.

ii) Fair Value and Liquidity Risk Disclosure – Amendments to Financial Instruments – Disclosures, Section 3862.  
Effective April 1, 2009, the Fund adopted the recent amendments to Canadian Institute of Chartered Accountants ("CICA") 3862, Financial Instruments – Disclosures.

The amendments to CICA 3862, Financial Instruments – Disclosures, establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements).

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**2. Summary of Significant Accounting Standards (continued)**

(k) Adoption of New Accounting Standards (continued):

ii) (continued)

The three levels of the fair value hierarchy are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Investment Manager has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3: Inputs that are unobservable. There is little if any market activity. Inputs into the determination of fair value require significant management judgment or estimation.

**3. Investments and Derivatives**

(a) Fair value of investments and related income are summarized in the following table:

	<b>As at March 31, 2010</b>		<b>For the Year</b>		<b>As at March 31, 2009</b>		<b>For the Year</b>	
	Asset (000's)	%	Income* (000's)		Asset (000's)	%	Income* (000's)	
Money market	\$ 172,151	4.9	\$ 1,992		\$ 136,244	4.7	\$ 6,777	
Fixed income – directly held	950,263	27.4	49,967		899,707	30.8	32,754	
Fixed income – pooled fund	106,822	3.1	6,779		85,413	3.0	(51,481)	
Equities								
Canadian	703,318	20.3	208,808		522,287	17.9	(188,272)	
US	643,854	18.6	96,220		470,547	16.1	(61,933)	
Other foreign	620,537	17.9	132,092		529,989	18.1	(261,497)	
Real estate – Canadian directly held	177,786	5.2	(9,910)		193,441	6.6	10,095	
Real estate – Canadian pooled fund	79,787	2.3	1,087		79,314	2.7	(1,844)	
Equity swap contract	247	-	17,010		2,038	0.1	(20,020)	
Currency forwards	11,379	0.3	119,046		1,107	-	(63,163)	
Securities lending	-	-	592		-	-	592	
Other	-	-	50		-	-	59	
	<u>\$ 3,466,144</u>	<u>100.0</u>	<u>\$ 623,733</u>		<u>\$ 2,920,087</u>	<u>100.0</u>	<u>\$ (597,933)</u>	

\* Includes realized losses of \$ 46.0 million (\$ 63.3 million - 2009) and unrealized gains of \$ 431.0 million (losses of \$ 698.5 million - 2009). Income from investment activities is net of brokerage commissions of \$ 0.9 million (\$ 1.4 million – 2009).

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**3. Investments and Derivatives (continued)**

(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.

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 tables provide details of derivative contracts outstanding as at March 31, 2010:

**Equity Swap Contract**

<u>Notional Amount (000's)</u>	<u>Term</u>	<u>Counterparty Credit Rating</u>	<u>Equity Index</u>	<u>BA Index</u>	<u>Fair Value (000's)</u>
\$62,705	12 months	AA (low)	S&P/TSX 60	CAD-BA-CDOR	\$247

The notional amount of the equity swap contract represents the volume of the outstanding transaction and serves as the basis upon which the return and the fair value of the contract are determined. The money market-to-equity swap contract is denominated in Canadian dollars and is reset quarterly.

**Currency Forwards**

<u>Notional Amount (000's)</u>	<u>Fair Value (000's)</u>
\$782,375	\$11,379

Forward contracts are used to manage the currency exposure of investments held in foreign currencies. The net notional amount of the currency forwards represents the volume of the outstanding transactions and serves as the basis upon which the return and the market value of the contract are determined.

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**3. Investments and Derivatives (continued):**

(c) 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 price fluctuations, credit risk, and liquidity risk. The Fund has set formal goals, policies, and operating procedures that establish an asset mix among equity, fixed income and real estate investments, required diversification of investments within categories, and set limits on the size of exposure to individual investments and counterparties. Risk and credit committees have been created that regularly monitor the risks and exposures of the Fund. Trustee oversight, procedures and compliance functions are incorporated into Fund processes to achieve consistent controls and to mitigate operational risk.

(i) Interest rate risk:

Interest rate risk refers to the fact that the Fund's financial position will change with market interest rate changes, as fixed income securities are sensitive to changes in nominal interest rates. Interest rate risk is inherent in the management of a pension plan due to prolonged timing differences between cash flows related to the Fund's assets and cash flows related to the Fund's liabilities.

The value of the Fund is affected by short-term changes in nominal interest rates. 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.

	2010					2009		
	Average							
	Within 1 year (000's)	1 to 5 years (000's)	5 to 10 years (000's)	Over 10 years (000's)	Total (000's)	Effective yield (%)	Total (000's)	Effective yield (%)
Money market	\$ 172,151	-	-	-	\$ 172,151	0.4	\$ 136,244	0.6
Bonds and debentures	-	\$ 353,409	\$ 263,575	\$ 202,930	819,914	4.5	779,712	5.4
Real return bonds	-	610	88	129,651	130,349	3.8	119,995	3.4
Fixed income pooled fund	<u>3,525</u>	<u>23,928</u>	<u>69,819</u>	<u>9,550</u>	<u>106,822</u>	8.3	<u>85,413</u>	10.4
<b>Total</b>	<b><u>\$ 175,676</u></b>	<b><u>\$ 377,947</u></b>	<b><u>\$ 333,482</u></b>	<b><u>\$ 342,131</u></b>	<b><u>\$ 1,229,236</u></b>		<b><u>\$ 1,121,364</u></b>	

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

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**3. Investments and Derivatives (continued):**

(i) Interest rate risk (continued):

After the effect of derivatives contracts, and without change in all other variables, a one percent increase in nominal interest rates would decrease the fair value of the Fund by \$ 70.6 million. A one percent decrease in nominal interest rates would increase the fair value of the Fund by \$ 76.8 million.

(ii) Price risk:

Price risk is the risk of fluctuation in market values of investments from influences specific to a particular investment or from influences on the market as a whole. Price risk does include interest rate risk and foreign currency risk which are also discussed in this note. After the effect of derivatives contracts, and without change in all other variables, a ten per cent increase in market values of all public equities and privately owned equities would increase the fair value of the Fund by \$ 217.4 million. Similarly, a ten per cent decrease in market values of all public equities and privately owned equities would decrease the fair value of the Fund by \$ 217.4 million.

(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. Credit risk associated with the Fund is regularly monitored and analyzed through risk and credit committees.

The Fund limits derivative contract risk by dealing with counterparties that have a minimum "A" credit rating.

The Fund is exposed to credit risk from interest earning investments at March 31, 2010:

	<u>2010</u>	<u>2009</u>
	(000's)	(000's)
Federal government	\$ 428,610	\$ 316,280
Provincial governments	187,504	167,228
Corporate	<u>646,772</u>	<u>684,060</u>
	<u>\$ 1,262,886</u>	<u>\$ 1,167,568</u>

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**3. Investments and Derivatives (continued):**

(iii) Credit risk (continued):

The Fund lends securities for a fee to approved borrowers. High quality collateral is provided by borrowers to alleviate the credit risk. Regular reporting of the Securities Lending Program ensures that its various components are continuously being monitored.

Real estate investment managers mitigate risk through monthly monitoring of tenant performance and arrears. Tenant exposure is managed by limiting concentration to a specific economic sector or to a single covenant. A transaction, where a new tenant exposure is assumed, is vetted by appropriate due diligence and approval process.

(iv) Foreign currency risk:

Foreign currency exposure arises from the holding of investments denominated in foreign currencies. A policy of hedging from 30% up to 70% of the currency exposure helps to mitigate this risk.

The Fund's unhedged currency exposure from net investment assets as at March 31, 2010 is summarized in the following table:

<u>Currency</u>	<b>2010</b> (000's)	<b>2009</b> (000's)
Canada	\$ 1,890,005	\$ 1,724,787
United States	928,200	653,118
Euro zone	141,999	153,322
Japan	129,820	157,341
United Kingdom	103,521	89,901
Other	<u>239,075</u>	<u>124,395</u>
Total	<u>\$ 3,432,619</u>	<u>\$ 2,902,864</u>

After the effect of hedging, and without change in all other variables, a ten per cent increase in the Canadian dollar against all other currencies would decrease the fair value of the Fund by \$ 154.3 million. Similarly, a ten per cent decrease in the Canadian dollar against all other currencies would increase the fair value of the Fund by \$ 154.3 million.

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**3. Investments and Derivatives (continued):**

(v) Liquidity risk

Liquidity risk is the risk of not meeting the cash obligations of the Fund in an efficient manner. Cash obligations are fulfilled from contributions to the Fund, cash income of the Fund and planned dispositions of Fund assets as required. Cash requirements of the Fund are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations of the Fund. The Fund's cash management policy ensures that the quality and liquidity of the investment vehicles within the cash portfolios are consistent with the needs of the Fund.

**4. Fair Value Disclosure**

The Fund's assets recorded at fair value have been categorized based upon a fair value hierarchy in accordance with the amendment to CICA 3862. See Note 2(a) for a discussion of the Fund's policies regarding this hierarchy. The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis at March 31, 2010.

**Financial Assets at fair value as at March 31, 2010**

	Level 1	Level 2	Level 3	Total
Money market	\$172,151	-	-	\$172,151
Fixed Income - Canadian	707,316	75,919	-	783,235
Fixed Income - pooled fund	106,822	-	-	106,822
Fixed Income - US	167,028	-	-	167,028
Equities - Canadian	703,318	-	-	703,318
Equities - US	610,463	-	33,391	643,854
Equities - other foreign	620,537	-	-	620,537
Real estate - Canadian directly held	-	177,786	-	177,786
Real estate - Canadian pooled fund	-	79,787	-	79,787
Equity swap contract	247	-	-	247
Currency forwards	11,379	-	-	11,379
	<u>\$3,099,261</u>	<u>\$333,492</u>	<u>\$33,391</u>	<u>\$3,466,144</u>

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**5. 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, 2010 are as follows:

2010-2011	\$ 9,055
2011-2012	4,444
2012-2013	964
2013-2014	7,579
2014-2015	10,164
Thereafter	<u>15,696</u>
Total	<u>\$ 47,902</u>

For purposes of the consolidated statement of net assets available for benefits and accrued pension benefits net of deficiency, real estate mortgage payables are valued at fair values based on prevailing interest rates.

**6. Infrastructure:**

On Feb 18, 2010, the Fund entered into a limited partnership agreement with a closed end infrastructure/private equity fund to commit \$30 million over a finite investment period. As of Mar 31, 2010, the Fund has contributed 2.69% of its commitment.

**7. Actuarial Asset Value Adjustment:**

The actuarial asset value adjustment is comprised of the following:

	<b>2010</b>	<b>2009</b>
	(000's)	(000's)
Service Buy-Back Receivable	<u>\$ 1,026</u>	<u>\$ 751</u>

This receivable represents the present value of outstanding employee and employer contributions as at March 31, 2010 that are due as a result of service buy-backs.

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**8. 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, 2009 and issued their report in May 2010. The report indicated that the Plan had an unfunded liability of \$1,503.0 million (December 31, 2008 - \$1,688.2 million). A projection to March 31, 2010, applying the same assumptions, indicated an unfunded liability of \$1,516.5 million (March 31, 2009 - \$1,869.9 million).

The following table reflects the unfunded liability as at March 31, 2010 and as at March 31, 2009.

	<b>2010</b>	<b>2009</b>
	(000's)	(000's)
Actuarial value of assets:	\$ 3,445,349	\$ 2,898,355
Accrued pension benefits:	<u>4,961,851</u>	<u>4,768,219</u>
Unfunded liability:	<u>(\$ 1,516,502)</u>	<u>(\$ 1,869,864)</u>

	<b>2010</b>	<b>2009</b>
	(000's)	(000's)
<b>Reconciliation of changes in accrued pension benefits:</b>		
Accrued pension benefits at beginning of year	\$ 4,768,219	\$ 4,496,218
Interest on accrued pension benefits at 6.86%	327,100	308,441
Contributions and transfers from other pension plans	174,091	146,653
Current service cost in excess of contributions	(6,503)	3,082
Net impact of changes in assumptions	34,528	-
Net impact of experience gains and losses relating to accrued pension benefits	(96,515)	37,443
Benefits paid	(219,044)	(205,821)
Refunds of contributions and interest and transfers to other pension plans	<u>(20,025)</u>	<u>(17,797)</u>
Accrued pension benefits at end of year	<u>\$ 4,961,851</u>	<u>\$ 4,768,219</u>

The actuarial valuation projects liabilities for each member on the basis of service earned to date and the member's projected five-year highest 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 2009 valuation remained unchanged from those used in the 2008 valuation, with the exception of average salary increase, which did not incorporate a known contractual salary increase, and the mortality table, which changed from UP-94 projected to 2015 using scale AA to UP-94 projected to 2020 using scale AA.

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**8. Accrued Pension Benefits and Deficiency (continued):**

The major economic and demographic assumptions used in the most recent valuations are as follows:

	<b>Valuation December 31, 2009</b>	<b>Valuation December 31, 2008</b>
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 2020 using scale 'AA'	UP-94 projected to 2015 using scale 'AA'

**9. Operating Expenses:**

The Fund is charged with administrative and certain other expenses incurred on behalf of the Fund by the Nova Scotia Pension Agency. The following is a summary of these operating expenses:

	<b>2010 (000's)</b>	<b>2009 (000's)</b>
<b>Plan Administration</b>		
Professional services	\$ 332	\$ 297
Salaries	1,347	1,257
Supplies and services	222	224
Travel	20	36
Other	162	169
	<u>\$ 2,083</u>	<u>\$ 1,983</u>
<b>Investment Expenses</b>		
Investment management and custodian fees	\$ 9,276	\$ 8,354
Professional services	143	142
Salaries	422	315
Supplies and services	25	17
Travel	10	11
Other	77	63
	<u>\$ 9,953</u>	<u>\$ 8,902</u>
<b>Total Operating Expenses</b>	<u>\$ 12,036</u>	<u>\$ 10,885</u>

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**10. Related Party Transactions:**

Investments include debentures of the Province of Nova Scotia with total market value of \$5.3 million (0.1% of total assets) as at March 31, 2010 (\$9.2 million (0.3% of total assets) as at March 31, 2009).

**11. Capital Management:**

The Trustee (see Note 1) manages the contributions and plan benefits as required by the Public Service Superannuation Act and its related Regulations. The Trustee approves and incurs expenses to administer the commerce required under the Act.

The Trustee provides for the short term financial needs of current benefit payments while investing members' contributions for the longer term security of pensioner payments. The Trustee exercises duly diligent practices and has established written investment policies and procedures, and approval processes. Operating budgets, audited financial statements, yearly actuarial valuations and reports, and as required, the retention of supplementary professional, technical and other advisors, are part of the Fund governance structure.

**12. Subsequent Event:**

On May 11, 2010, the Financial Measures (2010) Act received Royal Assent. Contained in this act were changes to the Public Service Superannuation Act. Future indexing of pension's payable under the Public Service Superannuation Act will be contingent on the funding level of the Plan, as well as subject to the approval of the Trustee. As a result of these changes, in conjunction with a contribution by the Province to the pension fund, the plan is projected to be fully funded as at December 31, 2010.

**13. Comparative Figures:**

Certain prior period amounts have been restated to conform to the current year presentation.