

**PROVINCE OF NOVA SCOTIA
SYDNEY STEEL CORPORATION
SUPERANNUATION FUND
CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2004**



**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 Sydney Steel Corporation Superannuation Fund as at March 31, 2004 and the consolidated statement of changes in net assets available for benefits for the year then ended. These 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 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, 2004 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

My audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The current year's supplementary information included in Schedules A and B are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

E. Roy Salmon, FCA
Auditor General

Halifax, Nova Scotia
May 20, 2004

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CONSOLIDATED FINANCIAL STATEMENTS
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PROVINCE OF NOVA SCOTIA
SYDNEY STEEL CORPORATION SUPERANNUATION FUND
CONSOLIDATED STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
AND ACCRUED PENSION BENEFITS NET OF DEFICIENCY
AS AT MARCH 31, 2004

	<u>2004</u>	<u>2003</u>
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Marketable securities under administration (Note 3):		
Cash and short-term notes	\$ 628,877	\$ 589,590
Bonds and debentures	5,132,411	6,402,686
Equities	9,164,989	9,727,946
Interest and dividends receivable	<u>57,993</u>	<u>81,175</u>
	<u>14,984,270</u>	<u>16,801,397</u>
Cash	<u>363,999</u>	<u>56,106</u>
Total assets	<u>15,348,269</u>	<u>16,857,503</u>
Liabilities		
Investment transactions outstanding	25,041	-
Accounts payable and accrued liabilities	<u>22,296</u>	<u>66,921</u>
Total liabilities	<u>47,337</u>	<u>66,921</u>
Net assets available for benefits	<u>\$ 15,300,932</u>	<u>\$ 16,790,582</u>
ACCRUED PENSION BENEFITS NET OF DEFICIENCY		
Accrued pension benefits	\$ 235,683,800	\$ 242,675,300
Deficiency (Note 4)	<u>(220,382,868)</u>	<u>(225,884,718)</u>
Accrued pension benefits net of deficiency	<u>\$ 15,300,932</u>	<u>\$ 16,790,582</u>

APPROVED:



Trustee - Minister of Finance

See accompanying notes to consolidated financial statements.

PROVINCE OF NOVA SCOTIA
SYDNEY STEEL CORPORATION SUPERANNUATION FUND
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED MARCH 31, 2004

	<u>2004</u>	<u>2003</u>
Increase In Assets		
Contributions:		
Province of Nova Scotia	\$ 19,794,331	\$ 7,363,552
Investment income:		
Interest on investments	343,005	576,426
Dividends on investments	98,451	161,101
Gain on sale of investments	1,224,488	665,274
Current period change in market values of investments	<u>1,628,375</u>	<u>-</u>
Total increase in assets	<u>23,088,650</u>	<u>8,766,353</u>
 Decrease In Assets		
Benefits paid	24,328,714	25,141,076
Operating expenses (Note 5)	249,586	320,240
Current period change in market values of investments	<u>-</u>	<u>5,480,651</u>
Total decrease in assets	<u>24,578,300</u>	<u>30,941,967</u>
 Decrease In Net Assets	 (1,489,650)	 (22,175,614)
 Net Assets Available for Benefits at Beginning of Year	 <u>16,790,582</u>	 <u>38,966,196</u>
 Net Assets Available for Benefits at End of Year	 <u>\$ 15,300,932</u>	 <u>\$ 16,790,582</u>

See accompanying notes to consolidated financial statements.

**PROVINCE OF NOVA SCOTIA
SYDNEY STEEL CORPORATION SUPERANNUATION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

1. Authority and Description of Plans:

The Sydney Steel Corporation Superannuation Fund (the "Fund") was established under the Sydney Steel Corporation Sale Act and was effective March 1, 2001. The Fund assumed responsibility for the assets and obligations of the former Sydney Steel Corporation pension plans. Under the Sub-section 7(9) of the Sydney Steel Corporation Sale Act, the Province of Nova Scotia has assumed responsibility to fund any shortfalls arising under this Fund.

The following descriptions are a summary only. For more complete information, reference should be made to the Plan agreements.

a) United Steel Workers of America Pension Plan:

The Plan is a non-contributory defined benefit plan, covering employees of Sydney Steel Corporation who are members of Locals 1064, 6537 and 6516 of the United Steelworkers of America.

A service pension is available based on \$30.00 per month per year of service, effective January 1, 1995 (previously \$16.50 per month), to a maximum of 35 years plus the amount of pension benefit as established under the provisions of the 1955 Pension Plan.

Death benefits are available if certain criteria are met.

b) Salaried Pension Plan:

The Plan is a partially contributory defined benefit pension plan covering the salaried employees of Sydney Steel Corporation.

A service pension is available based on \$30.00 per month per year of service, effective January 1, 1995 (previously \$16.50 per month), to a maximum of 35 years plus certain percentages of required contributions made after May 1, 1995.

Senior management employees receive pension benefits different from the above.

Death benefits are available if certain criteria are met.

**PROVINCE OF NOVA SCOTIA
SYDNEY STEEL CORPORATION SUPERANNUATION FUND
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

1. Authority and Description of Plans (continued):

c) Canadian Union of Public Employees Pension Plan:

The Plan is a non-contributory defined benefit plan covering employees of Sydney Steel Corporation who are members of Locals 1675 of the Canadian Union of Public Employees.

A service pension is available based on \$35.00 per month per year of service, effective January 1, 1995 (previously \$16.50 per month), to a maximum of 35 years plus the amount of pension benefit as established under the provisions of the 1955 Pension Plan.

Death benefits are available if certain criteria are met.

2. Significant Accounting Policies:

a) Basis of consolidation:

The consolidated financial statements include the accounts of the following pension plans:

- United Steel Workers of America Pension Plan
- Salaried Pension Plan
- Canadian Union of Public Employees Pension Plan

b) Basis of presentation:

As the Province of Nova Scotia has assumed any shortfall arising under this Fund (note 1), 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. They are prepared in accordance with Canadian generally accepted accounting principles.

c) Marketable securities:

Marketable securities are reported as of the trade date and 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. Bonds, debentures and equities are valued using published market quotations. The current period change in market value of investments for the year is reflected in the Consolidated Statement of Changes in Net Assets Available for Benefits.

d) Gains and losses on sale of investments:

Gains and losses arising on the sale of investments are determined by relating the sale proceeds of the investments to their original cost.

**PROVINCE OF NOVA SCOTIA
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YEAR ENDED MARCH 31, 2004**

2. Significant Accounting Policies (continued):

e) Foreign Currency Translation:

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing on the dates of the transactions. The market value of foreign investments and cash balances held at year-end are translated at the rates in effect at that date. The resulting gain or loss from changes in these rates is included in current period change in market value of investments.

f) Non-Investment Assets and Liabilities:

The fair value of cash and short-term notes, interest and dividends receivable, investment transactions outstanding and accounts payable approximate their carrying amounts due to their short-term nature.

g) Benefits:

Benefit payments to retired members and commuted value payments are recorded in the period in which they are paid. Accrued benefits are recorded as part of accrued actuarial liabilities.

h) 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.

3. Investments:

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:

(a) 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.

Interest bearing investments as classified by the earliest of the contractual repricing date or the maturity date are as follows:

**PROVINCE OF NOVA SCOTIA
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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 YEAR ENDED MARCH 31, 2004**

3. Investments (Continued):

	March 31, 2004				Total \$	Average effective yield	March 31, 2003	
	Within 1 year \$	1 to 5 years \$	5 to 10 years \$	Over 10 years \$			Total \$	Average effective yield
Money market	\$ 628,877	\$ -	\$ -	\$ -	\$ 628,877	2.6%	\$ 589,590	3.5%
Bonds and debentures	<u>352,573</u>	<u>2,776,604</u>	<u>477,495</u>	<u>1,555,739</u>	<u>5,132,411</u>	5.0%	<u>6,402,686</u>	5.8%
Total	<u>\$ 981,450</u>	<u>\$ 2,776,604</u>	<u>\$ 477,495</u>	<u>\$ 1,555,739</u>	<u>\$ 5,761,288</u>		<u>\$ 6,992,276</u>	

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

(b) 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 to mitigate the impact of market risk.

(c) Credit risk:

Credit risk is the risk of loss in the event the counterparty to a transaction fails to discharge an obligation and causes the other party to incur a loss. The Plan limits credit risk by purchasing fixed income securities with a credit rating of "BBB" and higher.

(d) Foreign currency risk:

Foreign currency exposure arises from the Plan's holding of foreign currency-denominated equities.

4. Actuarial Valuation:

Actuarial valuations of the Plans are carried out periodically 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, Eckler Partners Limited, performed a valuation as at December 31, 2003 and issued their report in June 2004. The report indicated that the Plans had an unfunded liability of \$222.3 million. A projection to March 31, 2004, applying the assumptions summarized below, indicated an unfunded liability of \$220.4 million (March 31, 2003 - \$225.9 million).

The actuarial valuation projects liabilities for each member on the basis of the pension credit years earned. The actuaries have used the unit credit method of determining the actuarial liability. The major economic and demographic assumptions used in the last valuation are as follows:

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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4. Actuarial Valuation (Continued):

	<u>Estimate March 31, 2004</u>	<u>Valuation December 31, 2001</u>
Inflation (only applies to the salary plan)	3.0% per annum	3.0% per annum
Average Salary Increase	Not applicable	Not applicable
Interest (discount) rate	6.17% per annum	7.05% per annum
Retirement Age	Earliest unreduced retirement date	Earliest unreduced retirement date
Mortality	1994 Group Annuity Mortality Table projected to 2000 using scale AA	1994 Group Annuity Mortality Table projected to 2000 using scale AA

5. Operating Expenses:

The Fund is charged with administrative and other expenses, certain of which are incurred on behalf of the Fund by the Department of Finance. The following is a summary of these operating expenses:

	<u>2004</u>	<u>2003</u>
Investment Expenses		
Investment management fees	\$ 89,618	\$ 151,626
Plan Administration		
Professional services	64,955	56,103
Salaries	74,341	75,066
Supplies and services	10,927	21,780
Travel	1,194	6,568
Other	8,551	9,097
	<u>159,968</u>	<u>168,614</u>
Total Operating Expenses	<u>\$ 249,586</u>	<u>\$ 320,240</u>

PROVINCE OF NOVA SCOTIA
SYDNEY STEEL CORPORATION SUPERANNUATION FUND
SCHEDULE A – ASSETS AVAILABLE FOR BENEFITS BY PENSION PLAN
MARCH 31

	United Steel Workers of America (Locals 1064, 6537 and 6516) Pension Plan	Salaried Pension Plan	Canadian Union of Public Employees (Local 1675) Pension Plan	Total
2004				
Investments	\$ -	\$ 14,862,361	\$ 96,868	\$ 14,959,229
Cash	363,999	-	-	363,999
	<u>363,999</u>	<u>14,862,361</u>	<u>96,868</u>	<u>15,323,228</u>
Less: Accounts payable and accrued liabilities	17,813	3,976	507	22,296
Net assets available for benefits	<u>\$ 346,186</u>	<u>\$ 14,858,385</u>	<u>\$ 96,361</u>	<u>\$ 15,300,932</u>
Accrued pension benefits	\$ 178,209,700	\$ 55,115,900	\$ 2,358,200	\$ 235,683,800
Deficiency	(177,863,514)	(40,257,515)	(2,261,839)	(220,382,868)
Accrued pension benefits net of deficiency	<u>\$ 346,186</u>	<u>\$ 14,858,385</u>	<u>\$ 96,361</u>	<u>\$ 15,300,932</u>
2003				
Investments	\$ -	\$ 16,518,423	\$ 282,974	\$ 16,801,397
Cash	54,530	1,576	-	56,106
	<u>54,530</u>	<u>16,519,999</u>	<u>282,974</u>	<u>16,857,503</u>
Less: Accounts payable and accrued liabilities	54,441	11,529	951	66,921
Assets available for benefits	<u>\$ 89</u>	<u>\$ 16,508,470</u>	<u>\$ 282,023</u>	<u>\$ 16,790,582</u>
Accrued pension benefits	\$ 186,457,600	\$ 53,891,600	\$ 2,326,100	\$ 242,675,300
Deficiency	(186,457,511)	(37,383,130)	(2,044,077)	(225,884,718)
Accrued pension benefits net of deficiency	<u>\$ 89</u>	<u>\$ 16,508,470</u>	<u>\$ 282,023</u>	<u>\$ 16,790,582</u>

PROVINCE OF NOVA SCOTIA
SYDNEY STEEL CORPORATION SUPERANNUATION FUND
SCHEDULE B – CHANGES IN ASSETS AVAILABLE FOR BENEFITS BY PENSION PLAN
YEAR ENDED MARCH 31

	United Steel Workers of America (Locals 1064, 6537 and 6516) Pension Plan	Salaried Pension Plan	Canadian Union of Public Employees (Local 1675) Pension Plan	Total
<u>2004</u>				
Increase in Assets				
Contributions:				
Province of Nova Scotia	\$ 19,752,152	\$ 39,836	\$ 2,343	\$ 19,794,331
Interest and dividends on investments	497	435,500	5,459	441,456
Gain on sale of investments	-	1,209,331	15,157	1,224,488
Current period change in market value of investments	<u>-</u>	<u>1,608,219</u>	<u>20,156</u>	<u>1,628,375</u>
	<u>19,752,649</u>	<u>3,292,886</u>	<u>43,115</u>	<u>23,088,650</u>
Decrease in Assets				
Benefits paid	19,214,773	4,889,387	224,554	24,328,714
Administrative expenses	191,779	53,584	4,223	249,586
Current period change in market value of investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>19,406,552</u>	<u>4,942,971</u>	<u>228,777</u>	<u>24,578,300</u>
Increase (decrease) in Net Assets	346,097	(1,650,085)	(185,662)	(1,489,650)
Assets available for benefits, beginning of year	<u>89</u>	<u>16,508,470</u>	<u>282,023</u>	<u>16,790,582</u>
Assets available for benefits, end of year	<u>\$ 346,186</u>	<u>\$ 14,858,385</u>	<u>\$ 96,361</u>	<u>\$ 15,300,932</u>
<u>2003</u>				
Increase in Assets				
Contributions:				
Province of Nova Scotia	\$ 7,275,612	\$ 83,054	\$ 4,886	\$ 7,363,552
Interest and dividends on investments	124,324	599,581	13,622	737,527
Gain on sale of investments	<u>148,564</u>	<u>505,893</u>	<u>10,817</u>	<u>665,274</u>
	<u>7,548,500</u>	<u>1,188,528</u>	<u>29,325</u>	<u>8,766,353</u>
Decrease in Assets				
Benefits paid	19,804,914	4,995,624	340,538	25,141,076
Administrative expenses	291,373	38,105	(9,238)	320,240
Current period change in market value of investments	<u>1,223,898</u>	<u>4,167,637</u>	<u>89,116</u>	<u>5,480,651</u>
	<u>21,320,185</u>	<u>9,201,366</u>	<u>420,416</u>	<u>30,941,967</u>
Decrease in Net Assets	(13,771,685)	(8,012,838)	(391,091)	(22,175,614)
Assets available for benefits, beginning of year	<u>13,771,774</u>	<u>24,521,308</u>	<u>673,114</u>	<u>38,966,196</u>
Assets available for benefits, end of year	<u>\$ 89</u>	<u>\$ 16,508,470</u>	<u>\$ 282,023</u>	<u>\$ 16,790,582</u>