

Financial Services Commission of Ontario
Financial Statements of the Pension Benefits Guarantee Fund
For the Year Ended March 31, 2004



Office of the Provincial Auditor of Ontario

Office of the
Provincial Auditor
of Ontario



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vérificateur provincial
de l'Ontario

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Auditor's Report

To the Financial Services Commission of Ontario
and to the Minister of Finance

I have audited the balance sheet of the Pension Benefits Guarantee Fund of the Financial Services Commission of Ontario as at March 31, 2004 and the statements of operations and fund deficit and cash flows for the year then ended. These financial statements are the responsibility of the Commission'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 financial position of the Commission's guarantee fund as at March 31, 2004 and its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 4, 2004

A handwritten signature in black ink, appearing to read "G. Peall".

Gary R. Peall, CA
Acting Assistant Provincial Auditor

FINANCIAL SERVICES COMMISSION OF ONTARIO
The Pension Benefit Guarantee Fund

Management's Responsibility for Financial Information

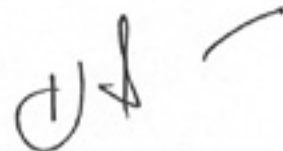
Management is responsible for the integrity and fair presentation of all information in the financial statements and notes. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements involves the use of management's judgement and best estimates particularly when transactions affecting the current period cannot be determined with certainty until future periods.

The Pension Benefit Guarantee Fund is dedicated to the highest standards of integrity in provision of its services. Management has developed and maintains financial controls, information systems and practices to provide reasonable assurances on the reliability of financial information and safeguarding of its assets.

The financial statements have been audited by the Office of the Provincial Auditor. The Provincial Auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with Canadian generally accepted accounting principles. They have been approved by the Commission's Audit Committee. The Auditor's report follows.



K. David Gordon
Deputy Superintendent of Pensions



Harold M. Sookdeo
Chief Accountant

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund

Balance Sheet

As at March 31, 2004

	2004 (\$ 000)	2003 (\$ 000) (Restated Note 7)
<u>ASSETS</u>		
Current		
Cash	620	53
Accounts receivable	61,113	56,106
	<u>61,733</u>	<u>56,159</u>
Investments (Note 3)	<u>554,866</u>	<u>299,991</u>
	<u><u>616,599</u></u>	<u><u>356,150</u></u>
 <u>LIABILITIES AND FUND BALANCE</u>		
Current		
Accounts payable and accrued liabilities	7,378	4,132
Current portion of loan payable	11,000	-
	<u>18,378</u>	<u>4,132</u>
Claims payable	386,401	489,487
Loan payable (Note 5)	<u>319,000</u>	<u>-</u>
	723,779	493,619
Fund deficit	<u>(107,180)</u>	<u>(137,469)</u>
	<u><u>616,599</u></u>	<u><u>356,150</u></u>

Contingencies (Note 6)

See accompanying notes to financial statements

Approved by:



CEO and Superintendent
Financial Services Commission of Ontario

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund Statement of Operations and Fund deficit For the year ended March 31, 2004

	2004 (\$ 000)	2003 (\$000) (Restated Note 7)
Revenues		
Premium revenue	53,374	51,171
Investment income (Note 3)	9,873	10,988
Recoveries	235	103
	<u>63,482</u>	<u>62,262</u>
Expenses		
Claims	33,281	162,766
Pension management fees (Note 4)	326	-
Investment management fees	272	290
Administration fee (Note 4)	301	249
	<u>34,180</u>	<u>163,305</u>
Excess (deficiency) of revenue over expenses before the following	29,302	(101,043)
Unrealized increase in the market value of investments	987	201
Excess (deficiency) of revenue over expenses	30,289	(100,842)
Fund deficit , beginning of year	(137,469)	(36,627)
Fund deficit, end of year	<u><u>(107,180)</u></u>	<u><u>(137,469)</u></u>

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund Statement of Cash Flows For the year ended March 31, 2004

	2004	2003
	(\$000)	(\$000)
		(Note 7)
Net Inflow (Outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess (deficiency) of revenue over expenses	30,289	(100,842)
Less item not affecting cash		
Unrealized gain on investments	(987)	(201)
	<u>29,302</u>	<u>(101,043)</u>
Changes in non cash working capital		
Accounts receivable	(5,007)	(14,464)
Accounts payable and accrued liabilities	3,246	1,251
Claims payable	(103,086)	159,843
	<u>(75,545)</u>	<u>45,587</u>
Cash flows from investing activities		
Purchases of investments	(952,411)	(871,773)
Proceeds from sale of investments	698,523	826,222
	<u>(253,888)</u>	<u>(45,551)</u>
Cash flows from financing activities		
Loan payable	330,000	-
	<u>330,000</u>	<u>-</u>
Net change in cash position	567	36
Cash position, beginning of year	53	17
Cash position, end of year	<u><u>620</u></u>	<u><u>53</u></u>

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements March 31, 2004

1. PURPOSE OF FUND

The purpose of the Pension Benefits Guarantee Fund (the Fund) is to guarantee payment of certain pension benefits of certain defined benefit pension plans that are wound up under conditions specified in the *Pension Benefits Act*, and regulations thereto. The regulations also prescribe the amount of the premiums required to be paid into the Fund by plan sponsors. The Superintendent of the Financial Services Commission of Ontario pursuant to the *Financial Services Commission of Ontario Act, 1997* is responsible for the administration of the Fund.

The *Pension Benefits Act* provides that if the assets of the Fund are insufficient to meet payments for claims, the Lieutenant Governor in Council may authorize the Minister of Finance of Ontario to make loans on such terms and conditions as the Lieutenant Governor in Council directs. The total liability of the Fund to guarantee pension benefits is limited to the assets of the Fund plus any loans received from the Province.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by the management of the Financial Services Commission of Ontario in accordance with Canadian generally accepted accounting principles. The significant accounting policies used to prepare these statements are summarized below.

(a) Investments

Investments include short-term deposits and fixed income securities issued or guaranteed by the federal and provincial governments and Canadian corporations. Short-term deposits have maturities of less than twelve months. They are recorded at cost which approximates market. Investments in government and corporate bonds are stated at their quoted market value. In aggregate, they are considered short term in nature and can be liquidated at any time to cover claims against the Fund. Premiums or discounts are not amortized.

Unrealized changes in market value reflect the change in unrealized gains or losses that have occurred by holding investments over the year.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements March 31, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Claims payable

Claims payable are liabilities to those defined benefit pension plans prescribed by legislation that are wound up or in the process of being ordered wound up under conditions specified in the *Pension Benefits Act*, and the amounts can be reasonably estimated. They are determined annually through an actuarial valuation using the best estimates of management of the Financial Services Commission of Ontario and represent the present value of future payments to settle the claims for benefits and expenses by eligible pension plans which are at various stages of the wind up process. Adjustments to the liabilities, if any, between the amounts recognized based on estimates and the actual claims made, will be charged or credited to the Fund in the year when the actual amounts are determined.

(c) Premium revenue

The annual premium revenue due from the defined pension plans prescribed by legislation is recognized based on an estimate because the actual revenue cannot be determined until the pension plan files its annual assessment certificate nine months after the plan's fiscal year end.

Adjustments to premium revenue, if any, between the estimated amounts recognized and the actual revenues due are charged or credited to income in the year when the actual amounts are determined.

(d) Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements and the reported amount of revenues and expenses for the period. Actual amounts could differ from these estimates.

(e) Financial Instruments

Unless otherwise noted, it is the opinion of the management of the Financial Services Commission of Ontario that the Fund is not exposed to significant interest rate, currency or credit risks arising from its financial instruments, and the carrying amount of the Fund's financial instruments approximates fair value unless otherwise noted.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements March 31, 2004

3. INVESTMENTS

The Financial Services Commission of Ontario has adopted a Statement of Investment Policies and Guidelines. This statement outlines the purpose of the Fund and provides guidelines for the management of the Fund.

Investments consist of:

	2004 (\$000s)	2003 (\$000s)
Short term deposits	402,985	125,070
Government and corporate bonds at market value (cost \$150,111; 2003 - \$174,142)	<u>151,881</u>	<u>174,921</u>
	<u>554,866</u>	<u>299,991</u>

Short term deposits have an average yield of 2.17% (2003 –2.96%) and government and corporate bonds have an average yield of 3.82% (2003 – 4.42%).

Investment income includes interest earned from interest bearing securities and realized gains/losses from the sale of securities. The realized net gain on the sale of securities amounted to \$ 578,662 (2003- \$839,659). Unrealized changes in the market value of investment is reflected separately on the statement of operations and fund deficit.

4. ADMINISTRATION AND PENSION MANAGEMENT FEES

The *Pension Benefits Act* allows the Financial Services Commission of Ontario to charge the Fund for expenses it incurs in administering the Fund. During fiscal 2004, administration fees of \$301,016 (2003- \$249,298) were paid to the Financial Services Commission of Ontario.

In fiscal 2004, \$326,000 was paid from the Fund to a team of experts retained to represent the Fund during the insolvency proceedings of a company whose failure could result in a very significant claim on the Fund by the pension plans of this company.

Administrative services related to the processing of premium revenue are provided by the Ministry of Finance without charge.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements March 31, 2004

5. LOAN PAYABLE

On March 31, 2004, the Fund obtained a loan of \$330 million from the Province. The loan is non-interest bearing, and repayable in thirty equal annual installments of \$11 million each, commencing on December 1, 2004. The loan agreement provides for the Minister of Finance to advance any installment payment date depending on the cash position of the Fund.

6. CONTINGENCIES

There are currently three companies operating under a stay under the *Companies' Creditors Arrangement Act* (CCAA) whose pension plans could represent very significant claims on the Fund.

One of these companies declared two of their pension plans wound up effective May 28, 2004 and the potential claim on the Fund for these two plans is estimated to be about \$50 million. It is anticipated that this company's remaining pension plans will wind up once the stay under the CCAA is lifted with a further potential claim on the Fund estimated at \$65.4 million.

The outcomes of the restructuring efforts of the two other companies and the amount of the potential claims on the Fund are not determinable at this time.

7. CHANGE IN THE BASIS OF ACCOUNTING

Effective April 1, 2003, the Fund adopted Canadian generally accepted accounting principles to prepare its financial statements. This change requires that all revenues and expenses be accounted for on the accrual basis. Previously the financial statements were prepared on a disclosed basis of accounting whereby income and expenses were recorded on a cash basis, with the exception of investment income and unrealized changes in the market value of investments which were recorded on an accrual basis. This change in the basis of accounting has been adopted retroactively, resulting in the following changes to the March 31, 2003 financial statements as previously presented.

FINANCIAL SERVICES COMMISSION OF ONTARIO

**Pension Benefits Guarantee Fund
Notes to the Financial Statements
March 31, 2004**

7. CHANGE IN THE BASIS OF ACCOUNTING (cont'd)

	2003		
	(\$000)		
	As		As
	Previously	Increase	As
	stated	(Decrease)	Restated
Current assets	-	56,159	56,159
Current liabilities	-	4,132	4,132
Claims payable	-	489,487	489,487
Fund balance (deficit)	301,726	(439,195)	(137,469)
Excess (deficiency) of revenue over expenses	45,282	(146,124)	(100,842)