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**Financial Services Commission of Ontario**  
**Financial Statements of the Pension Benefits Guarantee Fund**  
**For the Year Ended March 31, 2005**



**Office of the Auditor General of Ontario**

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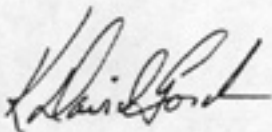
FINANCIAL SERVICES COMMISSION OF ONTARIO  
The Pension Benefit Guarantee Fund

Management's Responsibility for Financial Information

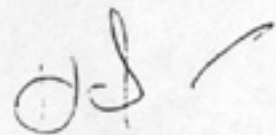
Management is responsible for the integrity and fair presentation of all information in the financial statements and notes. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements involves 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 Auditor General of Ontario. The Auditor General'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

Office of the  
Auditor General  
of Ontario



Bureau du  
vérificateur général  
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2  
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2  
(416) 327-2381 Fax: (416) 327-9862

*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, 2005 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, 2005 and its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario  
May 18, 2005

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

Gary R. Peall, CA  
Deputy Auditor General

**FINANCIAL SERVICES COMMISSION OF ONTARIO**

**Pension Benefits Guarantee Fund  
Balance Sheet  
As at March 31, 2005**

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	<b>2005</b>	<b>2004</b>
	<b>(\$ 000)</b>	<b>(\$ 000)</b>
<b><u>ASSETS</u></b>		
<b>Current</b>		
Cash	357	620
Accounts receivable	68,419	61,113
	<u>68,776</u>	<u>61,733</u>
Investments (Note 3)	223,161	554,866
	<u>291,937</u>	<u>616,599</u>
<b><u>LIABILITIES AND FUND DEFICIT</u></b>		
<b>Current</b>		
Accounts Payable and accrued liabilities	5,751	7,378
Current portion of loan payable	11,000	11,000
	<u>16,751</u>	<u>18,378</u>
<b>Claims payable</b>	204,624	386,401
<b>Loan payable (Note 5)</b>	308,000	319,000
	<u>512,624</u>	<u>723,779</u>
<b>Fund deficit</b>	<u>(237,438)</u>	<u>(107,180)</u>
	<u>291,937</u>	<u>616,599</u>

**Contingencies (Note 6)**

See accompanying notes to financial statements

Approved by:



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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, 2005

	<b>2005</b>	<b>2004</b>
	(\$ 000)	(\$ 000)
<b>Revenue</b>		
Premium revenue	67,431	53,374
Investment income (Note 3 )	7,894	9,873
Recoveries	19	235
	<u>75,344</u>	<u>63,482</u>
<b>Expenses</b>		
Claims	201,301	33,281
Pension management fees (Note 4)	2,358	326
Investment management fees	287	272
Administration fee ( Note 4)	379	301
	<u>204,325</u>	<u>34,180</u>
<b>Excess (deficiency) of revenue over expenses</b>	(128,981)	29,302
Unrealized gains (losses) in the market value of investments	(1,277)	987
<b>Excess (deficiency) of revenue over expenses</b>	(130,258)	30,289
<b>Fund deficit , beginning of year</b>	(107,180)	(137,469)
<b>Fund deficit, end of year</b>	<u><u>(237,438)</u></u>	<u><u>(107,180)</u></u>

### Contingencies ( Note 6)

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, 2005

	2005 (\$ 000)	2004 (\$ 000)
<b>Net Inflow (Outflow) of cash related to the following activities</b>		
<b>Cash flows from operating activities</b>		
Excess (deficiency) of revenue over expenses	(130,258)	30,289
Less items not affecting cash		
Unrealized (gain) loss on investments	1,277	(987)
	<u>(128,981)</u>	<u>29,302</u>
Changes in non cash working capital		
Accounts receivable	(7,306)	(5,007)
Accounts payable	(1,627)	3,246
Claims payable	(181,777)	(103,086)
	<u>(190,710)</u>	<u>(75,545)</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(1,500,855)	(952,411)
Proceeds from sale of investments	1,831,283	698,523
	<u>330,428</u>	<u>(253,888)</u>
<b>Cash flows from financing activities</b>		
Loan payable	-	330,000
Loan repayment	(11,000)	-
	<u>(11,000)</u>	<u>330,000</u>
<b>Change in cash position</b>	(263)	567
<b>Cash position, beginning of year</b>	620	53
<b>Cash position, end of year</b>	<u><u>357</u></u>	<u><u>620</u></u>

# FINANCIAL SERVICES COMMISSION OF ONTARIO

## Pension Benefits Guarantee Fund Notes to the Financial Statements March 31, 2005

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### 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, 2005

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## 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, 2005

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#### 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:

	2005 (\$ 000)	2004 (\$ 000)
Short term deposits	77,433	402,985
Government and corporate bonds at market value (cost \$145,240; 2004 - \$150,111)	<u>145,728</u>	<u>151,881</u>
	<u>223,161</u>	<u>554,866</u>

Short term deposits have an average yield of 2.50 % (2004 –2.17%) and government and corporate bonds have an average yield of 3.84 % (2004– 3.82%).

Investment income includes interest earned from interest bearing securities and realized gains/losses from the sale of securities. The realized net loss on the sale of securities amounted to \$ 662,488 (2004 - \$578,662 gain). Unrealized changes in the market value of investment are 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 2005 administration fees of \$379,228 (2004- \$301,016) were paid to the Financial Services Commission of Ontario. The Fund and the Commission are related parties.

In fiscal 2005, \$2,358,477 (2004 - \$325,751) was paid from the Fund to a team of experts retained to represent the Fund during the insolvency proceedings of two companies. In the case of one company whose failure could result in a very significant claim on the Fund by the pension plans of this company, the team of experts is seeking to minimize any potential claim on the Fund. In the case of the other company, the team is seeking to

## FINANCIAL SERVICES COMMISSION OF ONTARIO

### Pension Benefits Guarantee Fund Notes to the Financial Statements March 31, 2005

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#### 4. ADMINISTRATION AND PENSION MANAGEMENT FEES (Cont'd)

maximize potential recoveries from the bankrupt estate to offset the potential claims on the Fund.

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

#### 5. LOAN PAYABLE

On March 31, 2004, the Fund obtained a \$330 M loan from the Province. The loan is non interest bearing and repayable in thirty equal annual installments. The loan agreement provides for the Minister of Finance to advance any installment payment date depending on the cash position of the Fund. Repayments over the next five years are as follows:

	(\$000)
2005	11,000
2006	11,000
2007	11,000
2008	11,000
2009	11,000

#### 6. CONTINGENCIES

There is currently one company operating under a stay under the *Companies' Creditors Arrangement Act* (CCAA) whose pension plans could represent very significant claims on the Fund. However, the outcome and the amount of any potential claims on the Fund are not determinable at this time.