

FINANCIAL SERVICES COMMISSION OF ONTARIO

**Pension Benefits Guarantee Fund
Financial Statements
As at March 31, 2006**

Financial Services
Commission
of Ontario

Commission des
services financiers
de l'Ontario



Deputy Superintendent
Pension Division

Surintendant adjoint
Division des régimes de retraite

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Pension Benefit Guarantee Fund
Management's Responsibility for Financial Information

The Superintendent of the Financial Services Commission of Ontario ("FSCO") pursuant to the *Financial Services Commission of Ontario Act, 1997* is responsible for the administration of the Pension Benefit Guarantee Fund.

Under the direction of the Superintendent, Management of FSCO 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.

Management of FSCO, in the administration of 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.

Handwritten signature of K. David Gordon in black ink.

K. David Gordon
Deputy Superintendent, Pensions

Handwritten signature of Darinka Pejic in black ink.

Darinka Pejic
Chief Accountant

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund

Balance Sheet

As at March 31, 2006

	2006	2005
	(\$ 000)	(\$ 000)
ASSETS		
Current		
Cash	158	357
Accounts receivable	63,977	68,419
Investments (Note 4)	79,093	223,161
	<u>143,228</u>	<u>291,937</u>
LIABILITIES AND FUND DEFICIT		
Current		
Accounts payable and accrued liabilities	5,402	5,751
Current portion of loan payable	11,000	11,000
Claims payable	104,064	204,624
	<u>120,466</u>	<u>221,375</u>
Loan payable (Note 5)	<u>297,000</u>	<u>308,000</u>
	417,466	529,375
Fund deficit	<u>(274,238)</u>	<u>(237,438)</u>
	<u>143,228</u>	<u>291,937</u>

See accompanying notes to financial statements

Approved by:



Chief Executive Officer

and Superintendent of Financial Services
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, 2006

	2006 (\$ 000)	2005 (\$ 000)
Revenue		
Premium revenue	54,068	67,431
Investment income (Note 4)	5,580	7,894
Recoveries (Note 6)	6,652	19
	<u>66,300</u>	<u>75,344</u>
Expenses		
Claims	96,090	201,301
Pension management fees (Note 6)	5,887	2,358
Investment management fees	70	287
Administration fee (Note 7)	407	379
	<u>102,454</u>	<u>204,325</u>
Deficiency of revenue over expenses	(36,154)	(128,981)
Unrealized losses in the market value of investments	(646)	(1,277)
Deficiency of revenue over expenses	(36,800)	(130,258)
Fund deficit, beginning of year	(237,438)	(107,180)
Fund deficit, end of year	<u>(274,238)</u>	<u>(237,438)</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, 2006

	2006 (\$ 000)	2005 (\$ 000)
Net Inflow (Outflow) of cash related to the following activities		
Cash flows from operating activities		
Deficiency of revenue over expenses	(36,800)	(130,258)
Less items not affecting cash		
Unrealized loss on investments	646	1,277
	<u>(36,154)</u>	<u>(128,981)</u>
Changes in non cash working capital		
Accounts receivable	4,442	(7,306)
Accounts payable	(349)	(1,627)
Claims payable	(100,560)	(181,777)
	<u>(132,621)</u>	<u>(319,691)</u>
Cash flows from investing activities		
Purchases of investments	(1,166,405)	(1,500,855)
Proceeds from sale of investments	1,309,827	1,831,283
	143,422	330,428
Cash flows from financing activities		
Loan repayment	(11,000)	(11,000)
	<u>(11,000)</u>	<u>(11,000)</u>
Change in cash position	(199)	(263)
Cash position, beginning of year	357	620
Cash position, end of year	<u>158</u>	<u>357</u>

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements March 31, 2006

1. STATUTORY AUTHORITY

The Pension Benefits Guarantee Fund (the "Fund") is continued under the *Pension Benefits Act, R.S.O. 1990, c. P.8* (the "Act").

2. FUND OPERATIONS

The purpose of the Fund is to guarantee payment of certain pension benefits of certain defined benefit pension plans wound up under conditions specified in the *Act* and regulations thereto. The regulations also prescribe an assessment payable into the Fund by plan registrants.

The 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.

The Superintendent of the Financial Services Commission of Ontario ("FSCO") pursuant to the *Financial Services Commission of Ontario Act, 1997* is responsible for the administration and the investment of the assets of the Fund. The Fund reimburses FSCO for the cost of the services provided.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Fund have been prepared by the management of FSCO 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 gains or losses reflect the change in market value that has occurred by holding the investments over the year.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund

Notes to the Financial Statements

March 31, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(b) Claims payable

Claims payable are liabilities to those defined benefit pension plans prescribed by the Act that are wound up or in the process of being ordered wound up under conditions specified in the Act, and the amounts can be reasonably estimated. Claims payable are established according to accepted actuarial practice in Canada through an actuarial valuation using the best estimates of the management of FSCO 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 provision for claims in the year when the actual amounts are determined.

(c) Premium revenue

An estimate of the premium revenue due from defined pension plans at rates prescribed by the Act is recorded until receipt of the 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 revenue 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 FSCO's management make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the reported amounts of revenue and expenses for the period. Estimates and assumptions may change over time as new information is obtained or subsequent developments occur. Actual results could differ from these estimates.

(e) Financial Instruments

It is the opinion of the management of FSCO 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. The impact of fluctuations in interest rates on the Funds Investments is described in note 4.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements March 31, 2006

4. INVESTMENTS

As administrator of the investment assets of the Fund, FSCO has adopted a Statement of Investment Policies and appointed the Ontario Financing Authority as investment manager. The statement outlines the purpose of the Fund and provides guidelines for the management of the investments.

Investments consist of:

	2006 (\$'000)		2005 (\$'000)	
	Market Value	Cost	Market Value	Cost
Short term deposits	19,484	19,484	77,433	77,433
Government and corporate bonds	59,609	59,767	145,728	145,240
	<u>79,093</u>	<u>79,251</u>	<u>223,161</u>	<u>222,673</u>

Investment Risk and Income:

Short term deposits have an average yield of 3.9 % (2005 – 2.5 %) and government and corporate bonds have yields in the range of 3.3% to 5.8% (2005 – average yield of 3.84 %). At March 31, 2006, a 1% move in interest rates could impact the market value by approximately \$1million.

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 \$ 3,798 (2005 - \$662,488). Unrealized changes in the market value of investments are reflected separately on the statement of operations and fund deficit.

Maturity Profile of the Investments is as follows:

Investment Maturity	2006 (\$'000)	2005 (\$'000)
< 1 year	40,662	100,376
1 – 3 years	19,874	83,468
3 – 5 years	13,298	30,262
5+ years	5,259	9,055
	<u>79,093</u>	<u>223,161</u>

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund

Notes to the Financial Statements

March 31, 2006

5. LONG TERM LOAN PAYABLE

On March 31, 2004, the Fund obtained a \$330 million loan from the Province. The loan is non interest bearing and repayable to the Province 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)
2006	11,000
2007	11,000
2008	11,000
2009	11,000
2010	11,000

6. PENSION MANAGEMENT FEES AND RECOVERIES

In fiscal 2006, \$5,396,325 (2005 - \$2,297,057) was paid from the Fund to a team of experts retained to represent and to minimize any potential claim on the Fund during a court supervised restructuring of a company whose failure could result in a very significant claim on the Fund by the pension plans of the company.

On March 31, 2006, the company, with concurrence by the courts, completed certain agreements including pension agreements with the Province of Ontario to restructure its operations and cease insolvency protection. As a result, a claim has not been made on the Fund, nor is it anticipated one will be made in the future. Costs in the amount of \$5,000,000 were subsequently recovered from the company.

During the insolvency proceedings of another company, whose claim is reflected in claims payable, a team of experts retained to maximize potential recoveries and offset additional claims on the Fund was paid \$490,216 (2005 - \$61,420) in fiscal 2006.

7. ADMINISTRATION FEE AND RELATED PARTY TRANSACTIONS

For fiscal 2006, an administration fee of \$407,320 (2005 - \$379,228) was incurred and is payable to FSCO for management salaries and benefits and accounting, audit, information technology, legal and pension and other services. The Fund and FSCO are related parties.

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