

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund

Financial Statements

As at March 31, 2008

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund

Balance Sheet

As at March 31, 2008

| | 2008 (\$ '000) | 2007 (\$ '000) |
|--|-------------------|-------------------|
| ASSETS | | |
| Current | | |
| Cash | 100 | 66 |
| Accounts receivable | 46,600 | 54,151 |
| Investments (Note 4) | 128,457 | 98,026 |
| | <u>175,157</u> | <u>152,243</u> |
| LIABILITIES AND FUND DEFICIT | | |
| Current | | |
| Accounts payable and accrued liabilities | 3,394 | 5,499 |
| Current portion of loan payable | 11,000 | 11,000 |
| Claims payable | 116,452 | 99,138 |
| | <u>130,846</u> | <u>115,637</u> |
| Loan payable (Note 5) | <u>146,529</u> | <u>149,447</u> |
| | 277,375 | 265,084 |
| Fund deficit | <u>(102,218)</u> | <u>(112,841)</u> |
| | <u>175,157</u> | <u>152,243</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, 2008

| | 2008 | 2007 |
|---|------------------|------------------|
| | (\$ '000) | (\$ '000) |
| Revenue | | |
| Premium revenue | 31,939 | 45,571 |
| Investment income (Note 4) | 5,411 | 4,254 |
| Recoveries (Note 6) | 37,819 | 8,125 |
| | <u>75,169</u> | <u>57,950</u> |
| Expenses | | |
| Claims | 55,616 | 31,995 |
| Pension management fees (Note 6) | 430 | 859 |
| Investment management fees (Note 7) | 41 | 42 |
| Administration fee (Note 7) | 375 | 370 |
| Unrealized loss / (gain) in the market value of investments | 3 | (160) |
| Amortization of loan discount | 8,081 | 8,221 |
| | <u>64,546</u> | <u>41,327</u> |
| Excess of revenue over expenses | 10,623 | 16,623 |
| Fund deficit, beginning of year | (112,841) | (274,238) |
| Prospective change in accounting policy for loan payable (Note 5) | | 144,774 |
| Fund deficit, beginning of year as restated | | (129,464) |
| Fund deficit, end of year | <u>(102,218)</u> | <u>(112,841)</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, 2008

| | 2008 (\$ '000) | 2007 (\$ '000) |
|---|-------------------|-------------------|
| Net inflow (outflow) of cash related to the following activities | | |
| Cash flows from operating activities | | |
| Excess of revenue over expenses | 10,623 | 16,623 |
| Add items not affecting cash: | | |
| Unrealized loss (gain) on investments | 3 | (160) |
| Amortization of loan discount | 8,081 | 8,221 |
| | <u>18,707</u> | <u>24,684</u> |
| Changes in non cash working capital | | |
| Accounts receivable | 7,551 | 9,826 |
| Accounts payable | (2,105) | 97 |
| Claims payable | 17,314 | (4,926) |
| | <u>41,467</u> | <u>29,681</u> |
| Cash flows from investing activities | | |
| Purchases of investments | (2,387,106) | (1,624,425) |
| Proceeds from sale of investments | 2,356,673 | 1,605,652 |
| | <u>(30,433)</u> | <u>(18,773)</u> |
| Cash flows from financing activities | | |
| Loan repayment | (11,000) | (11,000) |
| | <u>(11,000)</u> | <u>(11,000)</u> |
| Change in cash position | 34 | (92) |
| Cash position, beginning of year | 66 | 158 |
| Cash position, end of year | <u><u>100</u></u> | <u><u>66</u></u> |

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund

Notes to the Financial Statements

March 31, 2008

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) Financial Instruments

The Fund follows the accounting standards issued by the Canadian Institute of Chartered Accountants pertaining to financial instruments. Under these standards, all financial instruments, are included on the balance sheet and are measured either at fair market value, or in limited circumstances, at cost or amortized costs. The Fund has classified its financial instruments into the following categories:

- Cash and investments are classified as held for trading and recorded at fair value, with changes in fair value during the period recognized in the statement of operations.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements March 31, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- Accounts receivable is classified as loans and receivables and valued at face value which approximates fair value given their short term maturities.
- Accounts payable and accrued liabilities are classified as other financial liabilities and are recorded at face value which approximates fair value given their short term maturities.
- Loan Payable is classified as other financial liabilities, and due to the concessionary nature of the loan is reflected at amortized cost using the effective interest rate method (Note 5).

(b) Claims payable

Claims payable are liabilities in respect of 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 based on information provided by appointed pension plan administrators. These estimates represent the present value of future payments to settle claims for benefits and expenses by pension plans.

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.

The actual claims are reviewed and verified by FSCO's Chief Actuary and approved by FSCO's management before any funds are paid out of the PBGF.

(c) Premium revenue

An estimate of the premium revenue due from defined benefit 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.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements March 31, 2008

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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.

4. INVESTMENTS

As administrator of the investment assets of the Fund, FSCO has formed a PBGF Management Committee, developed Investment Policies and Guidelines and appointed the Ontario Financing Authority, a related party, as investment manager. The statement provides operational objectives, investment principles, policies and guidelines for the management of the investments and is reviewed bi-annually.

Investments consist of:

| | 2008 (\$'000) | | 2007 (\$'000) | |
|-----------------------------------|------------------|----------------|------------------|---------------|
| | Market Value | Cost | Market Value | Cost |
| Short term deposits | 128,457 | 128,458 | 89,824 | 89,824 |
| Government and corporate bonds | - | - | 8,202 | 8,200 |
| | <u>128,457</u> | <u>128,458</u> | <u>98,026</u> | <u>98,024</u> |

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund

Notes to the Financial Statements

March 31, 2008

4. INVESTMENTS (cont'd)

The Fund's investment portfolio is exposed to various risks, which are mitigated by the type of investment and therefore risk is low. The associated risks with the investments are as follows:

Interest rate and Liquidity risk:

Short term deposits have yields in the range of 1.9% to 3.7% (2007 – 4.2% to 4.6%) and there are no government and corporate bonds for the current year (2007 – yields in the range of 4.4% to 4.5%). At March 31, 2008, a 1% move in interest rates could impact the market value by approximately \$300 thousand. Short term deposits represent instruments in highly liquid investments that are readily converted into known amounts of cash.

Investment income includes interest earned from interest bearing securities and realized gains/losses from the sale of securities. The realized gain on the sale of securities amounted to \$180 (2007 – realized gain of \$304 thousand). Unrealized changes in the market value of investments are reflected separately on the statement of operations and fund deficit.

5. LOAN PAYABLE

On March 31, 2004, the Fund obtained a \$330 million loan from the Province, a related party. The loan is non-interest bearing and repayable to the Province in thirty equal annual installments of \$11 million. 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 total \$55 million.

Effective April 1, 2006, the Fund adopted the new CICA standard on Financial Instruments. The new standard requires that loans payable be reflected at their fair value. As the loan from the Province confers a benefit to the Fund in that it is interest free, a fair value is determined by discounting future cash flows using the Provincial cost of borrowing (5.04%). The resulting benefit (the difference between the face value of the loan and the net present value) is accounted for as a grant in the year the loan was received and is amortized to loan discount expense over the term of the loan.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund Notes to the Financial Statements March 31, 2008

5. LOAN PAYABLE (cont'd)

As required by the standard, this accounting change was applied prospectively from April 1, 2006. Accordingly, as of April 1, 2006, the carrying value of Loan Payable was decreased by \$144,774 thousand to recognize the amount of the unamortized discount, and the opening balance of the Fund Deficit was decreased by the same amount.

The face value of this non-interest bearing loan has been discounted to reflect its fair value outstanding as of March 31, 2008 as follows:

| | 2008 (\$'000) | 2007 (\$'000) |
|-------------------|------------------|------------------|
| Face Value | 286,000 | 297,000 |
| Less: Discount | <u>(128,471)</u> | <u>(136,553)</u> |
| Fair Value | <u>157,529</u> | <u>160,447</u> |
| Classified as: | | |
| Current Portion | 11,000 | 11,000 |
| Long Term Portion | <u>146,529</u> | <u>149,447</u> |
| Balance | <u>157,529</u> | <u>160,447</u> |

The discount will be amortized to loan discount expense over the term of the loan based on the effective interest rate method. Amortization for the current year and for the subsequent four fiscal years is as follows:

| | (\$'000) |
|------|----------|
| 2008 | 8,081 |
| 2009 | 7,934 |
| 2010 | 7,780 |
| 2011 | 7,618 |
| 2012 | 7,447 |

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund

Notes to the Financial Statements

March 31, 2008

6. PENSION MANAGEMENT FEES AND RECOVERIES

The Fund periodically engages the services of experts to represent the Fund's interests with respect to companies which have made claims against the Fund. During fiscal 2008, \$430 thousand was paid to such experts related to negotiations involving one company (2007 - \$859 thousand involving three companies) .

Following distribution of claims and submission of a final wind up report any remaining funds are recovered by the Fund. During fiscal 2008, \$37,819 thousand (2007 - \$8,125 thousand) in recoveries were made by the Fund.

7. ADMINISTRATION FEE AND RELATED PARTY TRANSACTIONS

For fiscal 2008, an administration fee of \$375 thousand (2007 - \$370 thousand) was incurred and has been paid to FSCO for management salaries and benefits, accounting, information technology, legal, pension and other services. The Fund and FSCO are related parties.

Investment Management fees of \$36 (2007 - \$36) were paid to the Ontario Financing Authority. The Fund and Ontario Financing Authority are related parties.

The costs of processing of premium revenue transactions are absorbed by FSCO without charge to the Fund.

8. CONTINGENCIES AND SUBSEQUENT EVENT

In the ordinary course of the Fund's business, there are a number of companies operating under CCAA protection whose plans could make claims upon the Fund. The outcome and the amount of such potential claims are not determinable at this time.

A substantial recovery of funds for the PBGF is expected in 2009. Neither the amount nor the timing of the recovery can be determined at this point of time with any degree of certainty.