Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

FINANCIAL SERVICES COMMISSION OF ONTARIO

PENSION BENEFITS GUARANTEE FUND
FINANCIAL STATEMENTS

AS AT MARCH 31, 2007

Financial Services
Commission
of Ontario

Commission des
services financiers
de l'Ontario

Ontario

June 1, 2007

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 Auditor General of Ontario. The 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, Pensions

Darinka Pejic
Chief Accountant

Ontario

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

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, 2007 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 pension benefits guarantee fund as at March 31, 2007 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 1, 2007, except as to Note 8
which is as of June 13, 2007

Gary R. Peall, CA
Deputy Auditor General
Licensed Public Accountant

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FINANCIAL SERVICES COMMISSION OF ONTARIO

PENSION BENEFITS GUARANTEE FUND
BALANCE SHEET
As at March 31, 2007

	2007 ($000)	2006 ($000)
ASSETS		
Current		
Cash	66	158
Accounts receivable	54,151	63,977
Investments (Note 4)	98,026	79,093
	152,243	143,228
LIABILITIES AND FUND DEFICIT		
Current		
Accounts Payable and accrued liabilities	5,499	5,402
Current portion of loan payable	11,000	11,000
Claims payable	99,138	104,064
	115,637	120,466
Loan payable (Note 3(c) & 5)	149,447	297,000
	265,084	417,466
Fund deficit (Note 3(c))	(112,841)	(274,238)
	152,243	143,228

Contingencies (Note 8)

See accompanying notes to financial statements.

Approved by:

Chief Executive Officer
and Superintendent of Financial Services
Financial Services Commission of Ontario

Ontario

FINANCIAL SERVICES COMMISSION OF ONTARIO

PENSION BENEFITS GUARANTEE FUND
STATEMENT OF OPERATIONS AND FUND DEFICIT
For the year ended March 31, 2007

	2007 ($000)	2006 ($000)
Revenue		
Premium revenue	45,571	54,068
Investment income (Note 4)	4,254	5,580
Recoveries (Note 6)	8,125	6,652
	57,950	66,300
Expenses		
Claims	31,995	96,090
Pension management fees (Note 6)	859	5,887
Investment management fees	42	70
Administration fee (Note 7)	370	407
	33,266	102,454
Excess / (deficiency) of revenue over expenses before the following:	24,684	(36,154)
Unrealized gain / (losses) in the market value of investments	160	(646)
Amortization of loan discount	(8,221)	–
Excess / (deficiency) of revenue over expenses for the year	16,623	(36,800)
Fund deficit, beginning of year as previously stated	(274,238)	(237,438)
Prospective change in accounting policy for loan payable (Note 3(c))	144,774	–
Fund deficit, beginning of year as restated	(129,464)	(237,438)
Fund deficit, end of year	(112,841)	(274,238)

See accompanying notes to financial statements

Ontario

FINANCIAL SERVICES COMMISSION OF ONTARIO

PENSION BENEFITS GUARANTEE FUND
STATEMENT OF CASH FLOWS
For the year ended March 31, 2007

	2007 ($000)	2006 ($000)
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess / (Deficiency) of revenue over expenses	16,623	(36,800)
Less items not affecting cash		
Unrealized (gain) loss on investments	(160)	646
Amortization of loan discount	8,221	-
	24,684	(36,154)
Changes in non cash working capital		
Accounts receivable	9,826	4,442
Accounts payable	97	(349)
Claims payable	(4,926)	(100,560)
	29,681	(132,621)
Cash flows from investing activities		
Purchases of investments	(1,624,425)	(1,166,405)
Proceeds from sale of investments	1,605,652	1,309,827
	(18,773)	143,422
Cash flows from financing activities		
Loan repayment	(11,000)	(11,000)
	(11,000)	(11,000)
Change in cash position	(92)	(199)
Cash position, beginning of year	158	357
Cash position, end of year	66	158

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

PENSION BENEFITS GUARANTEE FUND
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2007

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. Investments have been classified as held for trading. Realized and unrealized gains or losses are recognized as investment income as they arise.

FINANCIAL SERVICES COMMISSION OF ONTARIO

PENSION BENEFITS GUARANTEE FUND
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2007

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 practices 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) Loan Payable – Change in Accounting Policy

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 (see note 5) 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.

As required by the standard, this accounting change was applied prospectively from April 1, 2006; therefore, comparative amounts have not been restated. 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 effect of the accounting change on 2007 operating results was an increase in expenses of $8,221 thousand representing the amortization of the loan discount. As at March 31, 2007, the net impact of the accounting change is a reduction in the loan payable and fund deficit of $136,553 thousand.

FINANCIAL SERVICES COMMISSION OF ONTARIO

PENSION BENEFITS GUARANTEE FUND
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(d) 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.

(e) 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

(f) 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.

4. INVESTMENTS

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

FINANCIAL SERVICES COMMISSION OF ONTARIO

PENSION BENEFITS GUARANTEE FUND
NOTES TO THE FINANICAL STATEMENTS
March 31, 2007

4. INVESTMENTS (cont'd)

Investments consist of:

	2007 ($000)		2006 ($000)	
	Market Value	**Cost**	**Market Value**	**Cost**
Short term deposits	89,824	89,824	19,484	19,484
Government and corporate bonds	8,202	8,200	59,609	59,767
	98,026	98,024	79,093	79,251

Investment Risk and Income:

Short term deposits have yields in the range of 4.2% to 4.6% (2006 – average yield of 3.9%) and government and corporate bonds have yields in the range of 4.4% to 4.5% (2006 – yields in the range of 3.3% to 5.8%). At March 31, 2007, a 1% move in interest rates could impact the market value by approximately $200 thousand.

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 $304 thousand (2006 – realized loss of $4 thousand). 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	2007 ($000)	2006 ($000)
< 1 year	98,026	40,662
1 – 3 years		19,874
3 – 5 years		13,298
5+ years		5,259
	98,026	79,093

FINANCIAL SERVICES COMMISSION OF ONTARIO

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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.

As disclosed in note 3(c) the face value of this non-interest bearing loan has been discounted to reflect its fair value outstanding as of March 31, 2007 as follows:

	($000)
Face value	297,000
less: Discount	(136,553)
Fair value	160,447
Classified as:	
Current portion	11,000
Long term portion	149,447
Balance	160,447

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 estimated for the subsequent four fiscal years is as follows:

	($000)
2007	8,221
2008	8,081
2009	7,934
2010	7,780
2011	7,618

FINANCIAL SERVICES COMMISSION OF ONTARIO

PENSION BENEFITS GUARANTEE FUND
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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 2007, $859 thousand (2006 - $5,887 thousand) was paid to such experts related to negotiations 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 2007, $8,125 thousand (2006 - $6,652 thousand) in recoveries were made by the Fund.

7. ADMINISTRATION FEE AND RELATED PARTY TRANSACTIONS

For fiscal 2007, an administration fee of $370 thousand (2006 - $407 thousand) was incurred and has been paid to FSCO for management salaries and benefits, accounting, audit, information technology, legal, pension and other services. The Fund and FSCO are related parties.

The costs of processing of premium revenue provided by the Ministry of Finance 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 of which the outcome and the amount of such potential claims are not determinable at this time.

As well, on June 13, 2007 the Fund was notified that a $28.6 million recovery would be forthcoming from a previous allocation from the Fund.