FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Financial Statements
For the year ended March 31, 2009

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Balance Sheet
As at March 31, 2009

	2009 ($ '000)	2008 ($ '000)
ASSETS		
Current		
Cash	35	100
Accounts receivable	49,162	46,600
Investments (Note 4)	146,004	128,457
	195,201	175,157
LIABILITIES AND FUND DEFICIT		
Current		
Accounts payable and accrued liabilities	4,573	3,394
Current portion of loan payable	11,000	11,000
Claims payable	83,516	116,452
	99,089	130,846
Loan payable (Note 5)	143,463	146,529
	242,552	277,375
Fund deficit	(47,351)	(102,218)
	195,201	175,157

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, 2009

	2009 ($ '000)	2008 ($ '000)
Revenue		
Premium revenue	40,452	31,939
Investment income (Note 4)	2,792	5,411
Recoveries (Note 6)	80,730	37,819
	123,974	75,169
Expenses		
Claims	58,716	55,616
Pension management fees (Note 6)	1,783	430
Investment management fees (Note 7)	41	41
Administration fee (Note 7)	391	375
Unrealized loss in the market value of investments	242	3
Amortization of loan discount	7,934	8,081
	69,107	64,546
Excess of revenue over expenses	54,867	10,623
Fund deficit, beginning of year	(102,218)	(112,841)
Fund deficit, end of year	(47,351)	(102,218)

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, 2009

	2009 ($ '000)	2008 ($ '000)
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess of revenue over expenses	54,867	10,623
Items not affecting cash:		
Unrealized loss on investments	242	3
Amortization of loan discount	7,934	8,081
Non-cash recovery	(586)	-
Loss on disposal of investments	135	-
	62,592	18,707
Changes in non cash working capital		
Accounts receivable	(2,561)	7,551
Accounts payable	1,179	(2,105)
Claims payable	(32,936)	17,314
	28,274	41,467
Cash flows from investing activities		
Purchases of investments	(2,713,913)	(2,387,106)
Proceeds from sale of investments	2,696,574	2,356,673
	(17,339)	(30,433)
Cash flows from financing activities		
Loan repayment	(11,000)	(11,000)
	(11,000)	(11,000)
Change in cash position	(65)	34
Cash position, beginning of year	100	66
Cash position, end of year	35	100

See accompanying notes to financial statements

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 of the Fund, and the Fund reimburses FSCO for the costs of the services provided. The investments of the Funds are managed by the Ontario Financing Authority, on a fee basis which are paid by the Fund.

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:

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- 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.

- Accounts receivable is classified as 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. The initial valuation was determined by discounting future cash flows using the provincial cost of borrowing. The resulting benefit (the difference between the face value of the loan and the net present value) was accounted for as a grant in the year received and is amortized to loan discount expense over the term of the loan.

(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. The estimates of claims to be paid is reviewed and verified by FSCO's Chief Actuary and Deputy Superintendent of Pensions.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(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.

(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 annually.

4. INVESTMENTS (cont'd)

Investments consist of:

	2009 ($'000)		2008 ($'000)	
	Market Value	Cost	Market Value	Cost
Short term deposits	139,812	139,812	128,457	128,458
Government and corporate bonds	5,850	5,850	-	-
Asset Backed Commercial Paper	342	586	-	-
	146,004	146,248	128,457	128,458

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 0.4% to 0.6% (2008 – 1.9% to 3.7%), and government and corporate bonds have average yields of 1.6% for the current year (2008 – there were no government and corporate bonds). At March 31, 2009, 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.

Investments include Asset Backed Commercial Paper (ABCP) received as part of a plan settlement in respect of a claim previously paid out. The ABCP had a face value of $586 thousand, and Management's best estimate of the net recoverable amount as at March 31, 2009 is $342 thousand. The valuation adjustment of $244 thousand has been recognized as an unrealized loss in the statement of operations and fund deficit.

4. INVESTMENTS (cont'd)

Investment income includes interest earned from interest bearing securities and realized gains/losses from the sale of securities. The realized loss on the sale of securities amounted to $135 thousand (2008 – realized gain of $180). 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.

The face value of this non-interest bearing loan has been discounted to reflect its fair value outstanding as of March 31, 2009 as follows:

	2009 ($'000)	2008 ($'000)
Face Value	275,000	286,000
Less: Discount	(120,537)	(128,471)
Fair Value	154,463	157,529
Classified as:		
Current Portion	11,000	11,000
Long Term Portion	143,463	146,529
Balance	154,463	157,529

5. LOAN PAYABLE (cont'd)

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)
2009	7,934
2010	7,780
2011	7,618
2012	7,447
2013	7,269

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. For fiscal 2009, $1,783 thousand was paid to such experts related to negotiations involving three companies (2008 - $430 thousand involving one company).

Following distribution of claims and submission of a final wind up report any remaining funds are recovered by the Fund. During fiscal 2009, $80,730 thousand (2008 - $37,819 thousand) in recoveries were made by the Fund.

7. RELATED PARTY TRANSACTIONS

For fiscal 2009, an administration fee of $391 thousand (2008 - $375 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 $41 thousand include fees of $35 thousand (2008 - $36 thousand) paid to the Ontario Financing Authority, a related party.

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

8. CONTINGENCIES AND SUBSEQUENT EVENT

There are currently two companies operating under CCAA protection whose pension plans could make claims on the Fund which could significantly exceed the existing assets of the Fund. As these potential claims remain at an early stage, an estimate of the claims which might be incurred, if any, cannot be determined.

Recoveries in the range of $5 - $7 million dollars are expected in 2009.

9. ACCOUNTING PRONOUNCEMENTS

An exposure draft has been issued by the Accounting Standards Board to replace Canadian generally accepted accounting principles with International Financial Reporting Standards (IFRS) for publicly accountable enterprises. The exposure draft proposes that IFRS be effective for fiscal years commencing on or after January 1, 2011. In February 2009, the Public Sector Accounting Board (PSAB) issued an invitation to Comment on the financial reporting to be issued by government organization such as the Fund. The paper presented four alternatives for consideration, all of which were consistent in providing the Fund with the option of selecting either PSAB standards or IFRS.