FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Financial Statements
For the year ended March 31, 2010

FINANCIAL SERVICES COMMISSION OF ONTARIO

Pension Benefits Guarantee Fund
Balance Sheet
As at March 31, 2010

	2010 ($ '000)	2009 ($ '000)
ASSETS		
Current		
Cash	1	35
Accounts receivable	40,444	49,162
Investments (Note 4)	628,348	146,004
	668,793	195,201
LIABILITIES AND FUND SURPLUS		
Current		
Accounts payable and accrued liabilities	3,456	4,573
Current portion of loan payable	11,000	11,000
Claims payable	410,751	83,516
	425,207	99,089
Loans payable (Note 5)	140,243	143,463
	565,450	242,552
Fund surplus / (deficit)	103,343	(47,351)
	668,793	195,201

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 Surplus
For the year ended March 31, 2010

	2010 ($ '000)	2009 ($ '000)
Revenue		
Provincial grant (Note 6)	500,000	
Premium revenue	43,217	40,452
Pension plan recoveries (Note 7)	12,033	80,730
Investment income (Note 4)	556	2,792
	555,806	123,974
Expenses		
Claims	391,771	58,716
Amortization of loan discount (Note 5 (a))	7,780	7,934
Pension management fees (Note 8)	5,137	1,783
Interest on loans (Note 5 (b))	1,558	
Administration fee (Note 9)	506	391
Investment management fees (Note 9)	69	41
Unrealized (gain) loss on investments (Note 4)	(180)	242
	406,641	69,107
Recoveries of pension management fees (Note 8)	(1,529)	
Excess of revenue over expenses	150,694	54,867
Fund surplus / (deficit), beginning of year	(47,351)	(102,218)
Fund surplus / (deficit), end of year	103,343	(47,351)

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, 2010

	2010 ($ '000)	2009 ($ '000)
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess of revenue over expenses	150,694	54,867
Items not affecting cash:		
Unrealized (gain) loss on investments (Note 4)	(180)	242
Amortization of loan discount (Note 5)	7,780	7,934
Non-cash recovery		(586)
Loss on disposal of investments (Note 4)	351	135
	158,645	62,592
Changes in non cash working capital		
Accounts receivable	8,718	(2,561)
Accounts payable and accrued liabilities	(1,117)	1,179
Claims payable	327,235	(32,936)
	493,481	28,274
Cash flows from investing activities		
Purchases of investments	(4,040,087)	(2,713,913)
Proceeds from sale of investments	3,557,572	2,696,574
	(482,515)	(17,339)
Cash flows from financing activities		
Proceeds on Loans	130,000	
Loan repayments	(141,000)	(11,000)
	(11,000)	(11,000)
Change in cash position	(34)	(65)
Cash position, beginning of year	35	100
Cash position, end of year	1	35

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 or grants 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 including any loans or grants 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 and surplus.
- 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.
- The non-interest bearing 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. Liabilities are also recognized when there is a high probability a company will not emerge from creditor protection and the pension plan will be wound up on a specified date and the claim can be reasonably estimated. Claims payable are based on information provided by appointed pension plan administrators or estimates provided from external consultants. 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 Deputy Superintendent of Pensions and Senior Manager, Operations.

The actual claims are reviewed and verified by FSCO's Chief Actuary and approved by FSCO's Deputy Superintendent of Pensions before any funds are paid out of the Fund.

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.

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 Fund Management Committee, developed a Statement of 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:

	2010 ($'000)		2009 ($'000)	
	Market Value	Cost	Market Value	Cost
Short term deposits	566,893	566,907	139,812	139,812
Government and corporate bonds	61,050	61,100	5,850	5,850
Master asset vehicle notes	405	405		
Pooled funds			342	586
	628,348	628,412	146,004	146,248

Investment income includes interest earned from interest bearing securities and realized losses from the sale of securities. The realized loss on the sale of securities amounted to $351 thousand (2009 – realized loss of $135 thousand). Unrealized changes in the market value of investments are reflected separately on the statement of operations and fund surplus.

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 0.229% to 0.435% (2009 – 0.4% to 0.6%), and government and corporate bonds have average yields of 0.381% for the current year (2009 – 1.6%). At March 31, 2010, a 1% move in interest rates could impact the market value by approximately $1,500 thousand. Short term deposits represent instruments in highly liquid investments that are readily converted into known amounts of cash.

4. INVESTMENTS (cont'd)

Master Asset Vehicle corporate notes:

During the year the Pooled Funds investments in Asset Backed Commercial Paper (ABCP), received in fiscal 2009 as part of a pension plan settlement in respect of a claim previously paid out, were exchanged for Master Asset Vehicle (MAV) corporate notes. The MAV have a face value of $405 thousand with maturities ranging from October 2016 to July 2056. There is limited market activity for the notes. Management's best estimate of the net recoverable amount as at March 31, 2009 is $405 thousand.

5. LOANS PAYABLE

(a) Non-interest Bearing Loan
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, 2010 as follows:

	2010 ($'000)	2009 ($'000)
Face Value	264,000	275,000
Less: Discount	(112,757)	(120,537)
Fair Value	151,243	154,463
Classified as:		
Current Portion	11,000	11,000
Long Term Portion	140,243	143,463
Balance	151,243	154,463

5. LOANS 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 subsequent five fiscal years is as follows:

Fiscal Year	($'000)
2011	7,618
2012	7,447
2013	7,269
2014	7,081
2015	6,883

(b) Interest Bearing Loans
During the year the Lieutenant Governor authorized the Minister of Finance to make two interest bearing loans from the Consolidated Revenue Fund under terms determined by the Ontario Financing Authority. Both loans were repaid with accrued interest totaling $1,558 thousand on March 31, 2010.

On August 28th, 2009 a $30 million loan with an interest rate of 4.48% was received by the Fund to pay claims for which an allocation application has been received on or before July 31, 2009. The loan was repayable in ten equal annual principal payments commencing December 1st, 2012.

On January 27th, 2010 a $100 million loan with an interest rate of 4.44% was received by the Fund to pay claims for which the Superintendent has appointed an administrator on or before October 31, 2009. The loan was repayable in twenty semi-annual installments of blended principal and interest commencing December 1st, 2012.

6. PROVINCIAL GRANT

On March 25, 2010 the Provincial Legislature approved an appropriation pursuant to subsection 82(5) of the *Pension Benefits Act* to enable the Minister of Finance to make a $500 million grant to the Fund for the purpose of repaying the two loans received during the year and accrued interest and holding the remaining funds in the Fund and expending the funds for any purpose authorized under the *Pension Benefits Act* for the Fund.

7. PENSION PLAN RECOVERIES

Following distribution of claims and submission of a final wind up report any remaining funds are recovered by the Fund. During fiscal 2010, $12,033 thousand (2009 - $80,730 thousand) in recoveries were made by the Fund.

8. RECOVERIES OF PENSION MANAGEMENT FEES

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 2010, $5,137 thousand was paid to such experts related to negotiations involving three companies (2009 - $1,783 thousand involving three companies). The Fund was reimbursed $1,029 thousand from the Ministry of Economic Development and Trade, a related party, and $500 thousand from a pension plan sponsor for actuarial consulting services received during the year.

9. RELATED PARTY TRANSACTIONS

For fiscal 2010, an administration fee of $506 thousand (2009 - $391 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 $69 thousand include fees of $63 thousand (2009 - $35 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.

Other related party transactions during the year have been disclosed in notes 5, 6 and 8.

10. SUBSEQUENT EVENT

Recoveries in the range of $10 - $20 million dollars are expected in 2010.

11. ACCOUNTING PRONOUNCEMENTS

Not -for -Profit Accounting Standards

The Accounting Standards Board (AcSB) and the Public Sector Accounting Board (PSAB) are assessing the strategic direction of financial reporting standards for not-for-profit organizations (NFPOs) in Canada.

The Boards are proposing that NFPOs in the public and private sectors should continue to use the current NFP CICA Handbook section 4400 series of standards, but use different financial reporting foundations. The PSAB proposes that government NFPO's follow the CICA Public Sector Accounting Handbook. The AcSB proposes private sector NFPO's be given a choice to follow the new private enterprise standards, IFRS or public sector accounting standards. Two exposure drafts are currently out for comment, with responses required in July, 2010.Government NFPOs would be required to transition to the new standards for fiscal periods beginning on or after January 1, 2012.