Ontario

PENSION BENEFITS GUARANTEE FUND FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2013

Management's Statement

Financial Services Commission of Ontario

Deputy Superintendent
Pension Division

5160 Yonge Street
Box 85, 8th Floor
Toronto ON M2N 6L9

Telephone: (416) 226-7795
Facsimile: (416) 226-7787

Commission des services financiers de l'Ontario

Surintendant adjoint
Division des régimes de retraite

5160, rue Yonge
boîte 85, 8e étage
Toronto ON M2N 6L9

Téléphone : (416) 226-7795
Télécopieur : (416) 226-7787

June 24, 2013

Pension Benefits 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 Benefits 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 Public Sector Accounting Standards. The preparation of financial statements involves the use of management's judgment 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 Benefits 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 Public Sector Accounting Standards. They have been approved by the Commission's Audit & Risk Committee. The Auditor's report follows.

Brian Mills
Deputy Superintendent, Pensions (Acting)

Javier Aramayo
Acting Chief Accountant

Auditor's Statement

Ontario

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

Independent Auditor's Report

To the Financial Services Commission of Ontario and to the Minister of Finance
I have audited the accompanying financial statements of the Pension Benefits Guarantee Fund of the Financial Services Commission of Ontario, which comprise the statement of financial position as at March 31, 2013 and the statements of operations and fund surplus, cash flows and re-measurement gains and losses for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Commission's Pension Benefits Guarantee Fund as at March 31, 2013, and the results of its operations and fund surplus, its cash flows and its re-measurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-326-3812

B.P. 105, 15e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-326-3812

www.auditor.on.ca

Toronto, Ontario
June 24, 2013

Gary R. Peall, CPA, CA, LPA
Acting Auditor General

Statement of Financial Position

As at March 31, 2013

	March 31, 2013 ($ 000)	March 31, 2012 ($ 000)
ASSETS		
Current		
Cash	752	1
Accounts receivable	140,247	104,689
Investments (Note 4)	345,321	233,085
	486,320	337,775
LIABILITIES AND FUND DEFICIT		
Current		
Accounts payable and accrued liabilities	10,834	7,937
Current portion of loan payable (Note 5)	11,000	11,000
Claims payable	78,739	109,287
	100,573	128,224
Loan payable (Note 5)	129,577	133,309
	230,150	261,533
Fund surplus from operation	256,165	76,128
Accumulated remeasurement gains	5	114
Fund surplus	256,170	76,242
	486,320	337,775

See accompanying notes to financial statements

Approved by:

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

Statement of Operations and Fund Surplus

For the Year Ended March 31, 2013

	March 31, 2013 ($ 000)	March 31, 2012 ($ 000)
Revenue		
Premium revenue	145,295	106,847
Pension plan recoveries (Note 7)	52,770	12,384
Investment income (Note 4)	3,281	3,087
	201,346	122,318
Expenses		
Claims	12,051	29,973
Amortization of loan discount (Note 5)	7,268	7,447
Pension consulting services (Note 8)	1,420	2,064
Administration fee (Note 9)	474	480
Investment management fees (Note 9)	96	85
	21,309	40,049
Recoveries of pension consulting services		(40)
Excess of revenue over expenses	180,037	82,309
Fund surplus / (deficit), beginning of year	76,128	(6,181)
Fund surplus, end of year	256,165	76,128

See accompanying notes to financial statements

Statement of Cash Flows

For the Year Ended March 31, 2013

	March 31, 2013 ($ 000)	March 31, 2012 ($ 000)
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Excess of revenue over expenses	180,037	82,309
Items not affecting cash:		
Amortization of loan discount (Note 5)	7,268	7,447
Loss on disposal of investments (Note 4)	(74)	293
	187,231	90,049
Changes in non cash working capital		
Accounts receivable	(35,559)	(54,131)
Claims payable	(30,548)	(412,623)
Accounts payable and accrued liabilities	2,897	3,940
	124,021	(372,764)
Cash flows from investing activities		
Purchases of investments	(3,792,182)	(4,145,536)
Proceeds from sale of investments	3,679,912	4,529,300
	(112,270)	383,764
Cash flows from financing activities		
Loan repayments	(11,000)	(11,000)
	(11,000)	(11,000)
Change in cash position	751	0
Cash position, beginning of year	1	1
Cash position, end of year	752	1

See accompanying notes to financial statements

Statement of Re-measurement Gains and Losses

For the Year Ended March 31, 2013

	March 31, 2013 ($ 000)	March 31, 2012 ($ 000)
Accumulated re-measurement gains, beginning of year	114	–
Amount reclassified to the statement of operations	(114)	–
Unrealized gains	5	114
Accumulated re-measurement gains, end of year	**5**	**114**

Notes to Financial Statements

March 31, 2013

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 Fund are managed by the Ontario Financing Authority, on a fee basis which is 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 Public Sector Accounting Standards for not-for-profit organizations (PSA-NPO) as issued by the Public Sector Accounting Board (PSAB). Accordingly, management has used the following significant accounting policies in their preparation.

(a) Financial Instruments

The Fund follows PSA-NPO pertaining to financial instruments. Under these standards, all financial instruments are included on the balance sheet and are measured either at fair value or at cost or amortized cost.

- Cash and investments are recorded at fair value, with changes in fair value during the period recognized in the statement of re-measurement gains and losses until realized. Fair value is determined from quoted prices for similar investments.
- Accounts receivable, account payable and accrued liabilities are valued at cost which approximate fair value given their short term maturities.
- The non-interest bearing loan payable is reflected at amortized cost using the effective interest rate method due to the concessionary nature of the loan. 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 actuarial consultants. These estimates represent the present value of future payments to settle claims for benefits and expenses by pension plans.

Differences in the liabilities, if any, between the amounts recognized based on estimates and the actual claims made, will be charged or credited to claims expense in the year when the actual amounts are determined.

(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.

Differences in premium revenue, if any, between the estimated amounts recognized and the actual revenues due are charged or credited to premium revenue in the year when the actual amounts are determined.

(d) Use of Estimates

The preparation of financial statements in accordance with PSA-NPO 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 and the differences could be material. Areas where significant estimates must be made include premium revenue and claims payable.

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.

Investments consist of:

	2013 ($ 000)		2012 ($ 000)	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Discounted notes	252,205	252,204	210,731	210,731
Government bonds	93,116	93,111	22,354	22,374
	345,321	345,315	233,085	233,105

Investment income includes interest earned from interest bearing securities and realized gains and losses from the sale of securities.

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

The market value sensitivity of the portfolio at the end of the last quarter was $600 thousand for a 1.00% change in rates.

Discounted notes with maturities between April 2013 and July 2013 have yields in the range of 0.960% to 1.140% (2012 — maturities between April 2012 and July 2012 and yields in the range of 0.926% to 1.150%).

Government bonds with maturities between June 2013 and December 2013 have yields in the range of 1.275% to 1.294% (2012 — maturities between April 2012 and June 2012 and yields of 1.599% and 1.981%).

5. LOAN PAYABLE

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 at an effective interest rate of 5.0368% to reflect its fair value outstanding as of March 31, 2013 as follows:

	2013 ($ 000)	**2012 ($ 000)**
Face Value	231,000	242,000
Less: Discount	(90,423)	(97,691)
Fair Value	140,577	144,309
Classified as:		
Current Portion	11,000	11,000
Long Term Portion	129,577	133,309
Balance	140,577	144,309

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)**
2014	7,081
2015	6,883
2016	6,676
2017	6,458
2018	6,229

6. FINANCIAL INSTRUMENTS

The main risks that the Fund's financial instruments are exposed to are credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment that it has entered into. The Fund is exposed to credit risk relating to the collection of receivables. The Fund considers this risk to be low.

The Fund's accounts receivable consists of premium revenue of $139 million, investment income of $390 thousand and the GST/HST receivable of $61 thousand.

The premium revenue receivable recorded is based on a one year projection time frame and the probability for a pension plan to become insolvent and not pay the premium within a year is very low. In addition, in the event that a pension plan would become insolvent within a year, there are legal options for the Fund that can be exercised to collect the premiums. Historically, the Fund has been able to collect the amounts estimated as premium receivable.

The risk of not collecting the investment income and the GST/HST receivable is considered to be minimal.

Liquidity Risk

The Fund's exposure to liquidity risk is minimal as the Fund has sufficient funds in its investment portfolio to settle all current liabilities. As at March 31, 2013, the Fund had an investment balance of $345 million (2012 — $233 million) to settle current liabilities of $101 million (2012 — $128 million). In addition, the Fund has the ability to meet sudden and unexpected claims by converting the investment holdings to cash without delay or significant transaction costs.

Market risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Fund. Short-term financial instruments (receivables, accounts payable) are not subject to significant market risk. The Fund manages its market risk by investing assets in low-risk and liquid securities. The Fund's market risk is considered to be low.

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 2013, $52.8 million (2012 — $12.4 million) in recoveries were made by the Fund. The total recoveries of $12 — 15 million dollars are expected in fiscal 2014.

8. PENSION CONSULTING SERVICES

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 2013, $1,419 thousand was paid to such experts related to negotiations involving one company (2012 — $2,064 thousand involving one company).

9. RELATED PARTY TRANSACTIONS

For fiscal 2013, an administration fee of $474 thousand (2012 — $480 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 $96 thousand include fees of $89 thousand (2012 — $78 thousand) paid to the Ontario Financing Authority, a related party.

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

Other related party transactions during the year have been disclosed in notes 4 and 5.