

**AUDITOR GENERAL**

**CHARLOTTETOWN  
PRINCE EDWARD ISLAND**

**PROVINCE OF PRINCE EDWARD ISLAND**

**CIVIL SERVICE SUPERANNUATION FUND**

**FINANCIAL STATEMENTS**

**MARCH 31, 2009**

# AUDITOR GENERAL

CHARLOTTETOWN  
PRINCE EDWARD ISLAND

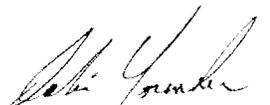
## AUDITOR'S REPORT

Honourable Wesley J. Sheridan  
Minister  
Department of Finance and Municipal Affairs  
Province of Prince Edward Island

I have audited the statement of net assets available for benefits of the Civil Service Superannuation Fund as at March 31, 2009 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the plan'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 Fund as at March 31, 2009 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

  
Colin Younker, CA  
Auditor General

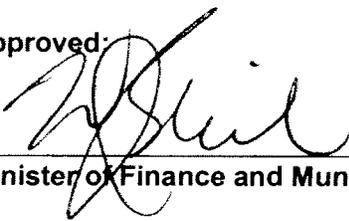
Charlottetown, Prince Edward Island  
April 8, 2010

**PROVINCE OF PRINCE EDWARD ISLAND**  
**CIVIL SERVICE SUPERANNUATION FUND**  
**STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS**  
**AS AT MARCH 31, 2009**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Cash	\$ 620,740	\$ 2,793,766
Receivables		
Contributions receivable - employees	1,440,178	1,223,687
- employers	1,455,299	1,832,590
Other	345,717	366,324
Accrued interest	736,470	841,680
Current portion of note receivable	<u>5,200,000</u>	<u>5,200,000</u>
	9,798,404	12,258,047
Investments (Notes 2(c) and 3)	682,947,441	819,714,189
Note receivable (Note 5)	<u>31,200,000</u>	<u>36,400,000</u>
Total assets	<u>723,945,845</u>	<u>868,372,236</u>
 <b>LIABILITIES</b>		
Accounts payable	<u>2,048,897</u>	<u>1,831,042</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$721,896,948</u>	<u>\$866,541,194</u>

(The accompanying notes are an integral part of these financial statements.)

Approved:

  
 Minister of Finance and Municipal Affairs

**PROVINCE OF PRINCE EDWARD ISLAND**  
**CIVIL SERVICE SUPERANNUATION FUND**  
**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**  
**FOR THE YEAR ENDED MARCH 31, 2009**

	<u>2009</u>	<u>2008</u>
<b>INCREASE IN ASSETS</b>		
Investment income		
Interest	\$ 16,578,763	\$ 21,737,769
Dividends	<u>12,174,511</u>	<u>12,339,536</u>
	<u>28,753,274</u>	<u>34,077,305</u>
Change in fair value of investments (Note 2(c))	(175,006,630)	(58,598,632)
Contributions		
Employee contributions	21,876,205	20,501,187
Employer contributions	21,876,205	20,501,187
Transfers from other plans	240,780	2,457,934
Refund repayments	280,895	1,016,398
Purchased service	<u>697,108</u>	<u>25,386,753</u>
	<u>44,971,193</u>	<u>69,863,459</u>
Total (decrease) increase in assets	(101,282,163)	45,342,132
<b>DECREASE IN ASSETS</b>		
Operating expenses (Note 6)	3,666,632	3,950,708
Benefits paid	38,346,711	36,220,107
Refunds	711,692	930,090
Transfers to other plans	<u>637,048</u>	<u>1,053,451</u>
Total decrease in assets	<u>43,362,083</u>	<u>42,154,356</u>
(Decrease) increase in net assets	(144,644,246)	3,187,776
Net assets available for benefits, beginning of year	<u>866,541,194</u>	<u>863,353,418</u>
Net assets available for benefits, end of year	<u>\$721,896,948</u>	<u>\$866,541,194</u>

(The accompanying notes are an integral part of these financial statements.)

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2009

1. Plan Description

The following description of the Civil Service Superannuation Plan (the "Plan") is a summary only. For more complete information, reference should be made to the *Civil Service Superannuation Act and Regulations*.

a) General

The Plan is a contributory defined benefit plan covering members as defined in the *Civil Service Superannuation Act*.

b) Contributions

Under the Plan, employees and employers make equal contributions amounting to 6.95% on that part of the salary on which Canada Pension Plan contributions are made and 8.75% on salary when Canada Pension Plan contributions are not required.

Effective January 1, 2009, the *Civil Service Superannuation Act* was amended and employees and employers started contributing equally at a rate of 7.09% of that part of the members' salary up to the amount of the year's maximum pensionable earnings (the "YMPE") as defined in the *Canada Pension Plan Act* and 8.75% on the amount that exceeds the YMPE. For those members whose employment is excluded from the *Canada Pension Plan Act* and is not subject to that Act, they continue to contribute 8.75% of their salary as previously arranged.

c) Retirement Benefits

A member who has attained the age of 60 and has completed at least 2 years of service or has attained the age of 55 and has completed 30 years of service is entitled to an unreduced pension which is payable in equal monthly installments.

The annual amount of the pension is equal to 2% of the average salary of the member in the three year period of pensionable service during which such average salary is highest, multiplied by the number of years of pensionable service. When the member reaches the age of 65 (or if he or she is 65 or over at retirement) the amount of pension described above is integrated with the Canada Pension Plan. The pension is reduced by 0.7% of the average salary up to the average YMPE during the three year period over which the average salary has been computed, multiplied by the number of years of the member's pensionable service after July 1, 1966 or July 1, 1972, depending on the election of the member and payment of the required contributions to be eligible for the smaller offset.

**PROVINCE OF PRINCE EDWARD ISLAND  
CIVIL SERVICE SUPERANNUATION FUND  
NOTES TO FINANCIAL STATEMENTS**

**MARCH 31, 2009**

**1. Plan Description (continued...)**

Reduced benefits are available at age 55 with 2 years pensionable service. The pension for a member who retires prior to age 60 (and who is not entitled to an unreduced pension) is calculated as described in the previous paragraph but then is reduced by 0.25% for each month by which the early retirement date precedes the member's earliest unreduced retirement age. It is calculated by using the lesser of the number of months between the date of actual retirement and the date the member would attain age 60 or the number of months between the date of actual retirement and the date the member would have at least thirty years of service.

The above formula determines the amount of a member's initial pension at retirement. In subsequent years, the amount of a member's pension is increased in line with increases in the Consumer Price Index. The increase in any one year is limited to no more than 6%.

**d) Death Benefits**

On the death of a member prior to completing 2 years of pensionable service, or after completing 2 years of service but leaving no surviving spouse or dependant children, the member's contributions accumulated with interest will be refunded. If a member dies prior to retirement but after completing 2 years of service, the member's spouse is entitled to an immediate lifetime pension equal to 60% of the accrued, unreduced pension of the member at the time of death. In addition to the spousal pension, an allowance equal to one-sixth of the pension paid to the surviving spouse is payable in respect of each dependent child, up to a maximum of 4 children, until the child attains age 18, or until 21 if the child is attending school full-time.

**e) Termination and Portability of Benefits**

In the event of termination of employment for reasons other than retirement or death, a member may elect to receive either:

- a refund of the member's own contributions with interest, or
- if the member has completed at least 2 years of service, a deferred pension commencing when the member attains the age of 60.

Where there are portability arrangements between the Plan and other plans, members may be able to carry certain pension rights to those other plans, or transfer contributions and service from those other plans to increase pension benefits under the Plan.

**PROVINCE OF PRINCE EDWARD ISLAND  
CIVIL SERVICE SUPERANNUATION FUND  
NOTES TO FINANCIAL STATEMENTS**

**MARCH 31, 2009**

**1. Plan Description (continued...)**

**f) Marriage Breakdowns**

Upon application, the pension benefits to which a person is entitled may be divided between the person and the spouse or former spouse.

**g) Income Tax**

The Plan is a Registered Pension Plan as defined under the *Income Tax Act* and is not subject to income tax.

**2. Summary of Significant Accounting Policies**

**a) Basis of Presentation**

These financial statements are prepared on a going concern basis and in accordance with Canadian generally accepted accounting principles and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the Province of Prince Edward Island and the Plan members. They are prepared to assist in reviewing the activities of the Plan for the fiscal period but do not portray the funding requirements of the Plan or the benefit security of individual members. The following accounting policies are considered significant.

**b) Consolidation**

These financial statements are prepared using the proportionate consolidation method of accounting whereby the Plan's pro-rated share of each of the assets, liabilities, revenues, and expenses of the Province of Prince Edward Island Master Trust (the "Master Trust") are aggregated with those of the Plan in its statement of net assets available for benefits and statement of changes in net assets available for benefits.

**c) Investments**

Investments are valued at the quoted market value, or estimated market value, as reported by the custodian of the Master Trust.

Changes in the market value of investments, including realized and unrealized gains resulting from changes in foreign exchange, are reflected in the financial statements as a change in the fair value of investments.

Investment revenue includes interest on bank deposits and interest and dividends on long-term investments.

**PROVINCE OF PRINCE EDWARD ISLAND**  
**CIVIL SERVICE SUPERANNUATION FUND**  
**NOTES TO FINANCIAL STATEMENTS**

**MARCH 31, 2009**

**2. Significant Accounting Policies (continued...)**

**d) Investment Transactions**

Investment transactions are recognized on the transaction date. Transactions conducted in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the transaction date. Distributions are recognized on the record date.

**e) Revenue and Expenses**

Revenue and expenses are recorded on an accrual basis in the period in which the transactions or events that gave rise to the revenue or expense occurred.

**f) Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates. Assumptions can affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the year. Actual results could differ from these estimates and the differences may be material.

**g) Changes in Accounting Policies**

The Fund plans to adopt the recommendations of the Canadian Institute of Chartered Accountants' Section 4600 which will replace Section 4100 for financial statements relating to fiscal years beginning on or after January 1, 2011. Management is reviewing the standard and will assess the impact on the financial statements.

**3. Investments**

- a) Fund investments consist of units held in the Master Trust. There were 746,241.070 (2008 - 719,320.817) units held in the Master Trust as of March 31, 2009, with a fair value of \$914.96 (2008 - \$1,139.57) per unit.**

**PROVINCE OF PRINCE EDWARD ISLAND  
CIVIL SERVICE SUPERANNUATION FUND  
NOTES TO FINANCIAL STATEMENTS**

**MARCH 31, 2009**

**3. Investments (continued...)**

Investments of the Master Trust consist of the following listed assets:

	<u>2009</u>	<u>2008</u>
Canadian short-term investments	\$ 8,095,582	\$ 20,265,080
US T-Notes	-	17,466,236
Other liquid assets	1,663,690	1,586,177
Bonds, debentures, and notes	416,946,086	445,233,971
Canadian equity securities (Note 3(c))	337,039,274	423,564,993
Foreign equity securities	238,316,606	305,812,862
Accrued income	<u>5,796,830</u>	<u>6,184,640</u>
Total	<u>\$1,007,858,068</u>	<u>\$1,220,113,959</u>
Pro-rated share	<u>67.7622%</u>	<u>67.1834%</u>
Civil Service Superannuation Fund investments	<u>\$ 682,947,441</u>	<u>\$ 819,714,189</u>

Investments include amounts which managers of the Master Trust have invested in their own pooled funds. The fair values of these investments are as follows:

	<u>2009</u>	<u>2008</u>
Beutel Goodman & Company Ltd.	\$ 12,520,065	\$ 20,933,878
Northwater Capital Management Inc.	59,901,201	120,427,884
Capital Guardian	<u>99,154,806</u>	<u>140,110,052</u>
Total	<u>\$ 171,576,072</u>	<u>\$ 281,471,814</u>
Pro-rated share	<u>67.7622%</u>	<u>67.1834%</u>
Civil Service Superannuation Fund - pooled funds	<u>\$ 116,263,721</u>	<u>\$ 189,102,335</u>

PROVINCE OF PRINCE EDWARD ISLAND  
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MARCH 31, 2009

3. Investments (continued...)

b) Risk Management

Rates of return vary based on the degree of uncertainty. The fundamental sources of uncertainty to which investments are exposed are credit and price risk. Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Price risk is comprised of currency risk, interest rate risk, and market risk. Currency risk is the risk that the value of an investment will fluctuate due to future changes in foreign exchange rates. Interest rate risk is the risk that the value of an investment will fluctuate due to future changes in market interest rates. Market risk is the risk that the value of a financial instrument will fluctuate as a result of future changes in the market prices, whether those changes are caused by factors specific to the individual security, its issuer, and/or factors affecting all securities traded in the market.

The policy of the Master Trust is to invest in a diversified portfolio of investments based on criteria established in the Statement of Investment Policies and Procedures.

c) MAV II Notes/Asset-Backed Commercial Paper

On April 1, 2008, the Master Trust held units in a pooled fund containing non-trading and illiquid third-party issued asset-backed commercial paper. These units were managed by Northwater Capital Management Inc.

On January 21, 2009, the investments were restructured and the original paper was replaced with new longer-term floating-rate notes. These notes were issued via new trusts called Master Asset Vehicles (MAV I and II). The pooled funds managed by Northwater Capital Management Inc. were invested in MAV II notes.

The total value of the MAV II notes held within the pool at March 31, 2009 was \$10,741,000 (or \$23,363,000 face value less a \$12,622,000 discount). Fair value of the MAV II notes are calculated using management's best estimates based on the available information reflecting an illiquid market.

The fair value assigned to the MAV II notes held by the Master Trust may differ from the actual value realized on any sale or other liquidation. As a result of these uncertainties, the fair value reported may change materially in subsequent periods.

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**MARCH 31, 2009**

**4. Obligations for Pension Benefits for Accounting Purposes**

The present value of accrued pension benefits was determined using the projected unit credit method pro-rated on service and best estimate assumptions. The most recent actuarial valuation for accounting purposes prepared by Morneau Sobeco disclosed an unfunded liability as at April 1, 2008 of \$45,800,000.

The estimated present value of accrued benefits as of March 31, 2009, the principal components of changes in actuarial present values during the year, and the estimated unfunded liability were as follows:

	<u>2009</u>	<u>2008</u>
Estimated present value of accrued benefits, beginning of year	\$895,007,164	\$810,538,950
Interest accrued on benefits	67,017,338	62,675,513
Benefits accrued	32,461,000	31,088,664
Increase due to purchases of service	1,218,783	28,907,685
Benefits paid	(39,695,451)	(38,203,648)
Changes due to actuarial valuation	<u>17,326,836</u>	<u>-</u>
Estimated present value of accrued benefits, end of year	973,335,670	895,007,164
Net assets available for benefits	<u>721,896,948</u>	<u>866,541,194</u>
Unfunded liability	<u>\$251,438,722</u>	<u>\$ 28,465,970</u>

The economic assumptions used in determining the actuarial value of accrued pension obligation for accounting purposes were developed by reference to expected long-term market conditions. Significant actuarial assumptions used in the valuation were:

Asset rate of return (upper end of range of assumptions)	7.37%
Basic salary escalation rate (excluding promotional increases)	2.50%
Pension cost of living increases	2.40%

The Consolidated Financial Statements of the Province record the obligation using the method of accounting disclosed above.

**PROVINCE OF PRINCE EDWARD ISLAND  
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NOTES TO FINANCIAL STATEMENTS**

**MARCH 31, 2009**

**5. Funding Policy**

In accordance with the *Civil Service Superannuation Act*, employees are required to contribute to the Fund as described in Note 1(b). Employers match employee contributions to the Fund. Under Section 5 of the *Civil Service Superannuation Act*, payments out of the Fund are guaranteed by the Province of Prince Edward Island.

As a result of an unfunded liability at April 1, 2005, the Province of Prince Edward Island made a special contribution through the signing of a \$52,000,000 promissory note. The note, which is held by the Fund, is receivable in ten equal annual installments of \$5,200,000 beginning October 15, 2006. Interest on the note is accrued at a rate of 4.41% per annum and is receivable semi-annually on April 15 and October 15. Prior to October 15, 2015, any monies owing may be suspended on six months prior notice if the Minister of Finance and Municipal Affairs deems the funding level of the Fund, excluding any outstanding balances on promissory notes, to be at a level of 90% on a going concern basis as defined in the Province of Prince Edward Island Funding Policy for Government Sponsored Registered Pension Plans. Interest will be accrued to the date of any suspension implemented. Any monies suspended prior to and including October 15, 2015 are no longer due and owing. Provided no further monies are payable, the promissory note shall be deemed paid in full.

The following is a schedule of payments of principal and interest as disclosed in the promissory note:

	<u>Principal Payments</u>	<u>Interest Payable</u>	
<u>Date of Payment</u>	<u>Principal Payment</u>	<u>October 15</u>	<u>April 15</u>
October 15, 2006	\$5,200,000	\$ -	\$1,031,940
October 15, 2007	5,200,000	1,031,940	917,280
October 15, 2008	5,200,000	917,280	802,620
October 15, 2009	5,200,000	802,620	687,960
October 15, 2010	5,200,000	687,960	573,300
October 15, 2011	5,200,000	573,300	458,640
October 15, 2012	5,200,000	458,640	343,980
October 15, 2013	5,200,000	343,980	229,320
October 15, 2014	5,200,000	229,320	114,660
October 15, 2015	5,200,000	114,660	-
	<u>\$52,000,000</u>	<u>\$5,159,700</u>	<u>\$5,159,700</u>

**PROVINCE OF PRINCE EDWARD ISLAND  
CIVIL SERVICE SUPERANNUATION FUND  
NOTES TO FINANCIAL STATEMENTS**

**MARCH 31, 2009**

**5. Funding Policy (continued...)**

Since the promissory note was not signed until March 30, 2007, but provided for a principal payment as of October 15, 2006, additional interest was paid on the scheduled principal payment of October 15, 2006, as the first payment was not made until April 16, 2007.

The most recent going concern actuarial valuation for funding purposes, dated April 1, 2008, determined an unfunded liability of \$126,900,000. At this date, after taking into account the outstanding balance on the promissory note and the present value of excess contributions as stipulated in the Funding Policy, the funding level was above 90%. Therefore, no additional special contributions were required.

**6. Operating Expenses**

The Fund is charged with administrative and operating expenses. The following is a summary of these expenses:

	<u>2009</u>	<u>2008</u>
Administration expenses - pension section	\$ 501,270	\$ 395,964
- investment section	92,390	77,844
Consulting fees	728,993	921,459
Investment expenses	<u>2,343,979</u>	<u>2,555,441</u>
<b>Total</b>	<b><u>\$3,666,632</u></b>	<b><u>\$3,950,708</u></b>

Of the \$593,660 in administration expenses incurred in 2009, \$419,820 (2008 - \$331,720) was incurred directly by the Province and recovered from the Fund.