

PROVINCE OF PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND
FINANCIAL STATEMENTS
MARCH 31, 2004

AUDITOR'S REPORT

**Honourable P. Mitchell Murphy
Provincial Treasurer
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, 2004 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Provincial Treasurer. 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, 2004 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
July 27, 2004**

STATEMENT 1

PROVINCE OF PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
AS AT MARCH 31, 2004

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash	\$ 355,727	\$ 387,359
Receivables		
Contributions receivable - employees	347,093	472,806
Contributions receivable - employers	455,896	682,445
Other	<u>27,961</u>	<u>52,830</u>
	1,186,677	1,595,440
Investments (Notes 2b and 3)	<u>473,248,957</u>	<u>373,050,020</u>
Total assets	\$474,435,634	\$347,645,460
LIABILITIES		
Accounts payable	<u>\$ 749,069</u>	<u>\$ 1,061,370</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$473,686,565</u>	<u>\$373,584,090</u>

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

STATEMENT 2

PROVINCE OF PRINCE EDWARD ISLAND

CIVIL SERVICE SUPERANNUATION FUND

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED MARCH 31, 2004

	<u>2004</u>	<u>2003</u>
INCREASE IN ASSETS		
Investment income		
Interest	\$ 8,780,184	\$ 8,349,773
Dividends	<u>5,488,116</u>	<u>5,862,490</u>
	<u>14,268,300</u>	<u>14,212,263</u>
Market value increase (decrease)	<u>84,817,191</u>	<u>(81,299,279)</u>
Contributions (Note 5)		
Employees' contributions	9,233,847	8,679,152
Employers' contributions	9,233,847	8,679,152
Transfers from other plans	519,227	4,080,506
Refund repayments	97,268	110,622
Purchased service	653,925	550,910
Government contribution toward unfunded liability	<u>5,926,605</u>	<u>5,926,605</u>
	<u>25,664,719</u>	<u>28,026,947</u>
Total increase (decrease) in assets	<u>124,750,210</u>	<u>(39,060,069)</u>
DECREASE IN ASSETS		
Administrative expenses	1,821,458	1,792,292
Benefits paid	21,615,973	20,298,234
Refunds	306,607	385,039
Transfers	<u>903,697</u>	<u>973,625</u>
Total decrease in assets	<u>24,647,735</u>	<u>23,449,190</u>
INCREASE (DECREASE) IN NET ASSETS	100,102,475	(62,509,259)
NET ASSETS AVAILABLE FOR BENEFITS		
AT BEGINNING OF YEAR	<u>373,584,090</u>	<u>436,093,349</u>
NET ASSETS AVAILABLE FOR BENEFITS		
AT END OF YEAR	<u>\$473,686,565</u>	<u>\$373,584,090</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, 2004

1. Description of Plan

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

a) General

The Plan is a contributory defined benefit plan covering government employees and employees of certain boards, commissions, crown corporations and agencies as defined in the Civil Service Superannuation Act. In addition, the Plan covers employees receiving disability payments under the Employees Long Term Disability Plan.

b) Contributions

Under the Plan, employees and the employer 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.

c) Retirement Benefits

A member who has attained age 60 and has completed at least 5 years of service or has attained age 55 and has completed 30 years of service is entitled to an immediate 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 to a maximum of 35 years. 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 reduced by 0.7% of the average salary up to the average Maximum Pensionable Earnings under the Canada Pension Plan 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 (continued)

MARCH 31, 2004

1. Description of Plan continued...

Reduced benefits are available at age 55 with 5 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. The lesser of the number of months between the date of actual retirement and the date the member would attain the 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, but 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 5 years of pensionable service, or after completing 5 years of service but leaving no surviving spouse or dependant children, the members contributions accumulated with interest will be refunded. If a member dies prior to retirement but after completing 5 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 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 five years of service, a deferred annuity 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 (continued)

MARCH 31, 2004

1. Description of Plan 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 the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the Province and Plan members. They are prepared to assist Plan members and others 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 Plan members.
- b) Investments are stated at market value, with the exception of Real Estate Investments which are valued at cost, as reported by the custodian of the Province of Prince Edward Island Master Trust as of March 31, 2004.**

3. Investments

Investments as of March 31, 2004 consist of the following:

Investment in Province of Prince Edward Island Master Trust	\$473,248,325
Cash held for investment	<u>632</u>
	<u>\$473,248,957</u>

The investments of the Civil Service Superannuation Fund, MLA Pension Fund, and the Teachers' Superannuation Fund are consolidated into the Province of Prince Edward Island Master Trust. Units are held by each of these funds in the Master Trust. As of March 31, 2004 there were 715,509.553 units held in the Province of Prince Edward Island Master Trust, of which Civil Service Superannuation Fund held the following:

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NOTES TO FINANCIAL STATEMENTS (continued)

MARCH 31, 2004

3. Investments continued...

Units held	428,227.411
Market value per unit	\$1,105.13
Total market value held	\$473,248,325

Investments of the Province of Prince Edward Island Master Trust are as follows:

Canadian T-Bills	\$ 9,134,769
Other liquid assets	521,307
Bonds, debentures and notes	268,608,879
Canadian equity securities	344,360,538
Foreign equity securities	158,641,254
Accrued income receivable	4,336,517
Real estate	5,130,090
Total	<u>\$790,733,354</u>

The investments of \$790,733,354 include amounts which three of the five Master Trust Fund managers have invested in their own pooled funds. The March 31, 2004 market values of these investments are as follows:

Beutel Goodman & Company Ltd.	\$ 25,134,396
Northwater Capital Management Inc.	181,353,782
Templeton Management Limited	109,723,021
Total	<u>\$316,211,199</u>

4. Obligations for Pension Benefits for Accounting Purposes

The present value of accrued pension benefits was determined using the projected benefit method prorated 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, 2002 of \$6,124,000. The unfunded liability of \$6,124,000 does not include an allowance for the present value of the future contributions shown in Note 5.

PROVINCE OF PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND
NOTES TO FINANCIAL STATEMENTS (continued)

MARCH 31, 2004

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

The actuarial present value of benefits as of March 31, 2004, the principal components of changes in actuarial present values during the year and the estimated unfunded liability, were as follows:

	<u>2004</u>
Actuarial present value of accrued benefits at beginning of year	\$469,720,727
Interest accrued on benefits	36,722,570
Benefits accrued	13,070,143
Benefits paid	<u>(22,826,277)</u>
Actuarial present value of accrued benefits at end of year	496,687,163
Net assets available for benefits	<u>473,686,565</u>
Unfunded liability as at March 31, 2004	<u>\$ 23,000,598</u>

The estimated unfunded liability of the fund of \$23,000,598 does not include an allowance for the present value of the remaining special contributions. If the present value of the remaining special contributions had been considered, as of March 31, 2004, the fund would have an estimated unfunded liability of \$17,073,993.

The economic assumptions used in determining the actuarial value of accrued pension 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	7.9% per annum
Basic salary escalation rate (excluding promotional increases)	3.0% per annum
Pension cost of living increases	2.4% per annum

The Consolidated (Summary) Financial Statements of the Province record the obligation using the accounting method.

5. Funding Policy

In accordance with the Civil Service Superannuation Act, employees are required to contribute as described in Note 1(b). The employer matches 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. The most recent actuarial valuation for funding purposes was prepared by Morneau Sobeco as of April 1, 2002. This valuation disclosed an unfunded liability as at April 1, 2002 of \$52,465,000.

PROVINCE OF PRINCE EDWARD ISLAND
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NOTES TO FINANCIAL STATEMENTS (continued)

MARCH 31, 2004

5. Funding Policy continued...

For the purpose of reducing the unfunded liability of the Fund, the Civil Service Superannuation Act requires the Lieutenant Governor-in-Council to pay \$63.35 million into the Fund in accordance with the following schedule:

April 1, 1995	\$11.60 million
April 1, 1996	5.75 million
March 31, 1998*	5.75 million
April 1, 1998	5.75 million
April 1, 1999	5.75 million
April 1, 2000	5.75 million
April 1, 2001	5.75 million
April 1, 2002	5.75 million
April 1, 2003	5.75 million
April 1, 2004	5.75 million

*An amount equal to the revenue that would otherwise have been earned for the period April 1, 1997 to March 31, 1998, on the contribution for the 1997-98 fiscal year that is deferred to March 31, 1998, shall be paid in seven equal installments commencing on April 1, 1998.