

**PROVINCE OF PRINCE EDWARD ISLAND**

**TEACHERS' SUPERANNUATION FUND**

**FINANCIAL STATEMENTS**

**JUNE 30, 2004**

## **AUDITOR'S REPORT**

**To the Commissioners of the  
Teachers' Superannuation Commission  
Province of Prince Edward Island**

**I have audited the Statement of Net Assets Available for Benefits of the Province of Prince Edward Island Teachers' Superannuation Fund as at June 30, 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 Teachers' Superannuation Commission. 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 June 30, 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  
March 3, 2005**

## PROVINCE OF PRINCE EDWARD ISLAND

## TEACHERS' SUPERANNUATION FUND

## STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

as at JUNE 30, 2004

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
Cash	\$ 770,383	\$ 711,441
Receivables		
Contributions receivable - employees	-	4,030
Contributions receivable - employers	25,770	8,609
Other	47,449	26,579
Short term loan to Province	<u>800,000</u>	<u>700,000</u>
	<u>1,643,602</u>	<u>1,450,659</u>
Investments (Notes 2b and 3)	<u>308,009,408</u>	<u>266,823,765</u>
Total Assets	<u>\$309,653,010</u>	<u>\$268,274,424</u>
<b>LIABILITIES</b>		
Accounts payable	<u>\$ 841,994</u>	<u>\$ 884,915</u>
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$308,811,016</u>	<u>\$267,389,509</u>

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

ON BEHALF OF THE COMMISSION

COMMISSIONER: \_\_\_\_\_

COMMISSIONER: \_\_\_\_\_

## PROVINCE OF PRINCE EDWARD ISLAND

## TEACHERS' SUPERANNUATION FUND

## STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED JUNE 30, 2004

	<u>2004</u>	<u>2003</u>
<b>INCREASE IN ASSETS</b>		
Investment income		
Interest	\$ 5,545,881	\$ 5,492,414
Dividends	3,488,161	3,871,830
Other income	54,284	29,148
	<u>9,088,326</u>	<u>9,393,392</u>
Market value increase (decrease)	<u>35,548,081</u>	<u>(12,613,985)</u>
Contributions		
Employees' contributions	6,158,735	5,882,826
Employers' contributions	6,158,735	5,882,826
Transfers from other plans	170,074	500,869
Buybacks	320,439	242,212
Contribution towards unfunded liability (Note 5)	12,121,202	12,121,202
	<u>24,929,185</u>	<u>24,629,935</u>
Total Increase in Assets	<u>69,565,592</u>	<u>21,409,342</u>
<b>DECREASE IN ASSETS</b>		
Administrative expenses	98,795	141,885
Custodial and management fees	985,706	959,717
Refunds	44,082	214,685
Benefits paid	26,973,059	25,223,484
Transfers to other plans	42,443	3,933,558
Total Decrease in Assets	<u>28,144,085</u>	<u>30,473,329</u>
Increase (Decrease) in net assets	41,421,507	(9,063,987)
Net assets available for benefits at beginning of the year	<u>267,389,509</u>	<u>276,453,496</u>
Net assets available for benefits at end of the year	<u>\$308,811,016</u>	<u>\$267,389,509</u>

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

**PROVINCE OF PRINCE EDWARD ISLAND**

**TEACHERS' SUPERANNUATION FUND**

**NOTES TO THE FINANCIAL STATEMENTS**

**JUNE 30, 2004**

**1. Description of Plan**

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

**a) General**

The Plan is a contributory defined benefit plan covering teachers as defined in the Teachers' Superannuation Act.

**b) Contributions**

Under the Plan, employees and the employer make equal contributions amounting to 7.2% on that part of the salary on which Canada Pension Plan contributions are made and 9.0% on salary when Canada Pension Plan contributions are not required.

**c) Retirement Benefits**

A teacher 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 or has completed 35 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 of the five highest annual pensionable salary rates, multiplied by the number of years of pensionable service. When the teacher 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 rate up to the average Yearly Maximum Pensionable Earnings under the Canada Pension Plan during the five year period over which the average salary has been computed, multiplied by the number of years of the teacher's pensionable service after July 1, 1972.

Reduced benefits are available at age 55 with 5 years pensionable service. The pension for a teacher 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 full month by which the early retirement date precedes the teacher's earliest unreduced retirement age.

The above formula determines the amount of a teacher's initial pension at retirement. In subsequent years the amount of a teacher's pension is increased by 60% of the percentage increase in the Consumer Price Index. The increase in any one year is limited to no more than 4%.

PROVINCE OF PRINCE EDWARD ISLAND

TEACHERS' SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

JUNE 30, 2004

1. Description of Plan (continued)

d) Disability Benefits

Disability benefits are available at any age to a teacher who retires from teaching service because of total and permanent disability who contributed to the Fund for 5 or more years.

e) Death Benefits

On the death of a teacher prior to completing 5 years of pensionable service, or after completing 5 years of service but leaving no surviving spouse or dependant children, the teacher's contributions accumulated with interest will be refunded. If a teacher dies prior to retirement but after completing 5 years of service, the teacher's spouse is entitled to an immediate lifetime pension equal to 60% of the accrued, unreduced pension of the teacher at the time of death. In addition to the spousal pension, an allowance equal to one quarter of the remaining 2/5 of pension which the teacher was receiving is payable in respect of each dependent child, until the child attains age 16, or until 25 if the child is attending school full-time. In no case shall payment to such children exceed 3/4 of the remaining 2/5 of pension.

f) Termination and Portability of Benefits

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

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

Where there are portability arrangements between the Plan and other plans, teachers 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.

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 sponsor and plan members. They are prepared to assist plan members and others in reviewing the activities of the Plan for the fiscal period but they do not portray the funding requirements of the Plan or the benefit security of individual plan members.

**PROVINCE OF PRINCE EDWARD ISLAND**

**TEACHERS' SUPERANNUATION FUND**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**JUNE 30, 2004**

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

- b) With the exception of real estate investments, which are valued at cost, investments are valued at market value as reported by the custodian of the Master Trust at June 30, 2004 and include the following:

	2004	2003
Cash held for investment	\$ 155	\$ 218
Short term investment fund units	12,162,785	-
Province of Prince Edward Island Master Trust	<u>295,846,468</u>	<u>266,823,547</u>
	<u>\$308,009,408</u>	<u>\$266,823,765</u>

**3. Investments**

Investments of the Civil Service Superannuation Fund, MLAs' pension funds, and the Teachers' Superannuation Fund are consolidated into the Province of Prince Edward Island Master Trust. As of June 30, 2004 there were 710,200.0975 units held in the Province of Prince Edward Island Master Trust, of which the Teachers' Superannuation Fund held the following:

Units held	267,891.71
Market Value per unit	\$1,104.351
Total market value held	\$295,846,468

Investments of the Province of Prince Edward Island Master Trust at June 30, 2004 are as follows:

Canadian T-Bills	\$ 8,153,962
Other liquid assets	(783,427)
Bonds, debentures and notes	267,111,477
Canadian equity securities	346,786,004
Foreign equity securities	163,126,476
Accrued income receivable	3,444,975
Real estate	<u>5,130,090</u>
Total	<u>\$792,969,557</u>

The investments of \$792,969,557 include amounts which the Master Trust Fund managers have invested in their own pooled funds. The June 30, 2004 market values of these related parties' investments are as follows:

Beutel, Goodman & Company Ltd.	\$ 19,596,129
Northwater Capital Management Inc.	187,975,867
Templeton Management Limited	<u>112,845,369</u>
	<u>\$320,417,365</u>

PROVINCE OF PRINCE EDWARD ISLAND

TEACHERS' SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

JUNE 30, 2004

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 \$153,630,000. The unfunded liability of \$153,630,000 does not include an allowance for the present value of the future contributions shown in Note 5. The present value of remaining special contributions required by the Teachers' Superannuation Act as at April 1, 2002 is \$21,644,985 using a discount rate of 7.9% per annum. If this present value had been considered for the actuarial valuation balance sheet, there would be a deficit of \$131,985,015.

The estimated present value of accrued benefits as of June 30, 2004, the principal components of changes in present values during the year and the estimated unfunded liability, were as follows:

Actuarial present value of accrued benefits at June 30, 2003	\$464,641,000
Interest accrued on benefits	36,005,000
Benefits accrued	9,218,000
Benefits paid	<u>(26,973,000)</u>
Estimated present value of accrued benefits at June 30, 2004	\$482,891,000
Actual net assets at June 30, 2004	<u>308,811,000</u>
Unfunded liability as at June 30, 2004	<u>\$174,080,000</u>

The economic assumptions used in determining the actuarial value of accrued pension benefits 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	1.4 % per annum

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

PROVINCE OF PRINCE EDWARD ISLAND

TEACHERS' SUPERANNUATION FUND

NOTES TO THE FINANCIAL STATEMENTS (continued)

JUNE 30, 2004

5.

**Funding Policy**

In accordance with the Teachers' Superannuation Act, employees are required to contribute as described in Note 1(b). The employer matches employee contributions to the Fund. Under Section 9 of the Teachers' 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 July 1, 2002. This valuation disclosed an unfunded liability as at July 1, 2002 of \$197,384,000.

The Teachers' Superannuation Act was amended to reflect that the Province of Prince Edward Island shall pay \$129.44 million into the Fund over a period of 10 years for the purpose of reducing the unfunded liability of the Fund. The Act was further amended in 1997 to provide for payments in accordance with the following schedule:

<u>Date of Payment</u>	<u>Amount Payable to Fund</u>
April 1, 1995	\$23.60 Million
April 1, 1996	11.76 Million
March 31, 1998*	11.76 Million
April 1, 1998	11.76 Million
April 1, 1999	11.76 Million
April 1, 2000	11.76 Million
April 1, 2001	11.76 Million
April 1, 2002	11.76 Million
April 1, 2003	11.76 Million
April 1, 2004	11.76 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 1997-1998 fiscal year that was deferred to March 31, 1998, shall be paid in seven equal annual installments, commencing on April 1, 1998. The installment referred to above is \$361,202 per year.