

DRAFT Financial Statements of

THE UNIVERSITY OF WESTERN ONTARIO
PENSION PLAN FOR MEMBERS OF THE ACADEMIC
STAFF

Year ended December 31, 2010

INDEPENDENT AUDITORS' REPORT

To the Academic Staff Pension Board of The University of Western Ontario

We have audited the accompanying financial statements of The University of Western Ontario Pension Plan for Members of the Academic Staff, which comprise the statement of net assets available for benefits as at December 31, 2010, and the statements of changes in net assets available for benefits for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on the financial reporting provisions of the Financial Services Commission of Ontario for pension plan financial statements subject to the Ontario Pension Benefits Act.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles for pension plans, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 our 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, we consider 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of The University of Western Ontario Pension Plan for Members of the Academic Staff as at December 31, 2010, and its changes in net assets available for benefits and its changes in pension obligations for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

May 18, 2011

London, Canada

THE UNIVERSITY OF WESTERN ONTARIO

PENSION PLAN FOR MEMBERS OF THE ACADEMIC STAFF

Statement of Net Assets Available for Benefits

DRAFT

December 31, 2010, with corresponding figures for 2009

	2010	2009
Assets		
Cash	\$ 2,141,403	\$ 1,299,021
Accrued income	135,996	126,535
Investments (note 5(a))	531,215,804	501,950,397
	<u>533,493,203</u>	<u>503,375,953</u>
Liabilities		
Accrued expenses	398,849	328,809
Benefits payable	638,393	919,242
	<u>1,037,242</u>	<u>1,248,051</u>
Net assets available for benefits	<u>\$ 532,455,961</u>	<u>\$ 502,127,902</u>

See accompanying notes to financial statements.

On behalf of the Academic Staff Pension Board:

_____ Chair

_____ Pension Board Secretariat

THE UNIVERSITY OF WESTERN ONTARIO

PENSION PLAN FOR MEMBERS OF THE ACADEMIC STAFF

Statement of Changes in Net Assets Available for Benefits

DRAFT

Year ended December 31, 2010, with corresponding figures for 2009

	2010	2009
Investment income:		
Investment income (note 5(b))	\$ 4,274,177	\$ 3,268,520
Net realized loss on sale of investments	142,472	(15,328,671)
Net unrealized change in fair value of investments (note 5(a))	37,734,215	87,614,718
	<u>42,150,864</u>	<u>75,554,567</u>
Increase in net assets:		
Contributions (note 9)	23,787,161	22,178,241
Transfers in to plan	796,383	1,279,255
	<u>24,583,544</u>	<u>23,457,496</u>
Decrease in net assets:		
Lump sum payments	(19,521,195)	(16,559,533)
Transfers to RIF	(15,432,898)	(10,677,663)
Periodic pension payments	(818,263)	(808,161)
Fund managers' fees (note 11)	(117,919)	(4,044)
Custodian fees	(284,563)	(314,122)
Administrative costs recovered by the University (note 10)	(90,885)	(93,355)
Transaction costs	(140,626)	(187,091)
	<u>(36,406,349)</u>	<u>(28,643,969)</u>
Net increase for the year	<u>\$ 30,328,059</u>	<u>\$ 70,368,094</u>
Allocation of net increase (decrease) for the year:		
Members' accounts	\$ 31,114,059	\$ 70,360,094
General account (note 7)	(786,000)	8,000
	<u>\$ 30,328,059</u>	<u>\$ 70,368,094</u>
Net assets available for benefits, beginning of year:		
Members' accounts	\$ 496,439,902	\$ 426,079,808
General account (note 7)	5,688,000	5,680,000
	<u>\$ 502,127,902</u>	<u>\$ 431,759,808</u>
Net assets available for benefits, end of year:		
Members' accounts	\$ 527,553,961	\$ 496,439,902
General account (note 7)	4,902,000	5,688,000
	<u>\$ 532,455,961</u>	<u>\$ 502,127,902</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF WESTERN ONTARIO
PENSION PLAN FOR MEMBERS OF THE ACADEMIC STAFF
DRAFT Notes to Financial Statements

Year ended December 31, 2010

1. Description of plan:

These financial statements present the activity of The University of Western Ontario Pension Plan for Members of the Academic Staff (the "Plan"). The following description of the Plan is a summary only. For more complete information, reference should be made to the plan agreement registered under the Income Tax Act, Canada, registration number 0358747.

The Plan is primarily a contributory defined contribution plan (some members have a defined benefit guarantee) for members of the Academic staff of The University of Western Ontario (the "University") and other participating employers. The Plan is sponsored by the University and the legal plan Administrator is the Academic Staff Pension Board (the "Pension Board"). The Northern Trust Company, Canada is the custodian of each of the funds.

Under the terms of the Plan, members, the University and other participating employers contribute to the Plan. Upon retirement, death or termination of employment, an employee's total accumulated entitlement is equal to the amounts he or she has contributed and those that have been contributed on his or her behalf plus the pro-rata share of net investment earnings. On retirement, the employee's pension is provided through the purchase of annuity contracts from life insurance companies selected by the Administrators of the Plan, or at the direction of the member, the funds may be transferred to a registered retirement savings plan ("RRSP") or a retirement income fund ("RIF"). Locked in funds, which are transferred, must go to a locked in retirement account ("LIRA"), a life income fund ("LIF") or a locked in retirement income fund ("LRIF"). The University may purchase deferred annuities on behalf of members eligible for retirement under the Plan. The assets related to these purchases are transferred at the time of purchase.

Certain members of the Plan are special members and as such are entitled to a minimum defined benefit guarantee. A special member of the Plan is a member who was an employee of the University and who had attained age 45 on July 1, 1970. Special members receive, on retirement, the greater of the pension provided on a defined contribution basis and the pension payable under the defined benefit provisions that were in effect before the Plan design changed to defined contribution. All special members who are entitled to a minimum pension have now retired and are in receipt of monthly pension payments from the Plan's general account.

THE UNIVERSITY OF WESTERN ONTARIO
PENSION PLAN FOR MEMBERS OF THE ACADEMIC STAFF
DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Description of plan (continued):

Contributions are invested by the Plan, at the option of the employee, into units of the Master Trust for the Academic and Administrative Staff Pension Plans and Retirement Income Fund Program (the "Master Trust"). The investment policies of the Master Trust are determined jointly by the Academic and Administrative Pension Boards. The Master Trust consists of eighteen separate investment pooled funds as follows:

- Money Market Fund
- Target Date Fund 2012
- Target Date Fund 2014
- Target Date Fund 2016
- Balanced Income Fund
- Balanced Growth Fund
- Diversified Bond Fund
- Canadian Bond Fund
- Canadian Long Term Bond Fund
- Immunized Bond Fund - Admin
- Immunized Bond Fund - Academic
- Diversified Equity Fund
- Canadian Equity Fund
- U.S. Equity Hedged Fund
- U.S. Equity Unhedged Fund
- Non-North American Equity Fund
- Socially Responsible Global Equity Fund
- Liquidating Trust

The Balanced Income Fund and the Balanced Growth Fund are portfolios that hold units of the Diversified Bond Fund and Diversified Equity Funds. They were established in September, 2001.

The Master Trust holds units in each of the nineteen investment pooled funds. These pooled funds contain investments in units of external pooled funds and individual securities.

The contributions of each member are credited to an individual account in the members' name and accumulated together with pro-rata net investment earnings. This account is fully vested (with exception of certain employees of Brescia University College) and payable to the member on termination of employment, or to the members' beneficiary on death.

Members can choose, as frequently as each month, the proportion of his or her personal account which is to be invested in any of the active investment funds subject to limitations imposed on special members. The valuation of each investment fund is established by the fund manager at the end of each month based on policies set by the Pension Board.

THE UNIVERSITY OF WESTERN ONTARIO
PENSION PLAN FOR MEMBERS OF THE ACADEMIC STAFF
DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

2. Basis of presentation:

The Plan is a participant in the University of Western Ontario Master Trust which was established by the University to facilitate the collective management of investment assets for the Pension Plans for the Academic and Administrative Staff and the Retirement Income Fund of the University. These financial statements have been prepared using the proportionate consolidation method based on units of the Master Trust held by the Plan at year end.

3. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and present the information of the Plan as a separate financial reporting entity independent of the University and plan members. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Administrator to make estimates and assumptions that 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 retirement income payments during the year. Actual results could differ from these estimates.

These financial statements meet the accounting requirements under Section 76 of the Regulations to the Pension Benefits Act (Ontario) since they have primarily been prepared for filing with the Financial Services Commission of Ontario.

(a) Revenue:

Interest earned on investments is recorded on an accrual basis. Dividends are recorded as income on the date the dividend is declared. Investment income is allocated each month among the members' accounts under the assumption that all interfund transfers of assets occurred at the month end following the request for transfer. All contributions from the University and the members are reflected in the year in which they are due. Transfers into the Plan are allocated to members' records effective the end of the month in which the transfer occurs.

(b) Investments:

Purchase and sale of assets are recorded on the trade date of the transactions. The assets of the Master Trust are exposed to market, interest rate, exchange rate and liquidity risks.

THE UNIVERSITY OF WESTERN ONTARIO
PENSION PLAN FOR MEMBERS OF THE ACADEMIC STAFF
DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

3. Significant accounting policies (continued):

(b) Investments (continued):

The Master Trust uses derivatives with the primary investment objective to gain market exposure on a passive basis and to manage currency risk at the portfolio level. As a policy, the Master Trust does not speculate in currencies when using derivatives. The notional amount of these derivative financial instruments is not recognized in the financial statements when initiated. However, the unrealized gains or losses on these instruments are recognized in the financial statements. The Master Trust's present use of derivative financial instruments is restricted to pooled funds that invest in exchange traded, unleveraged, U.S. and foreign equity index futures, currency forwards and swaps.

Investments are carried at fair value. In determining fair values, adjustments have not been made for transaction costs as they are not considered significant. The change in the difference between the fair value and cost of investments at the beginning and end of each year is reflected in the statement of changes in net assets available for benefits as net unrealized change in fair value of investments. Fair values are determined as follows:

- (i) Publicly traded bonds, debentures and equities are valued at published closing market quotations.
- (ii) Units in pooled funds are valued based on published unit values supplied by the pooled fund administrator, which represents the Plan's proportionate share of underlying net assets at fair values determined using closing market prices.
- (iii) Illiquid securities are valued based on a calculation performed by the investment manager using a discounted cash flow model.

(c) Unit valuation:

Members of the Plan are issued units based on the unit value at the end of the month in which the contribution was made. Investment income, net of agency fees and plan managers' fees, is credited to unit holders each month.

Plan units are redeemed at net asset market value per unit at the end of the month in which the request for redemption is made by the member. The redemption amount is paid in the following month and includes interest for the interim period.

THE UNIVERSITY OF WESTERN ONTARIO
PENSION PLAN FOR MEMBERS OF THE ACADEMIC STAFF
DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

3. Significant accounting policies (continued):

(d) Foreign exchange:

Transactions in foreign currencies are accounted for using the exchange rates in effect at the transaction date. At year end, investments in foreign currencies are accounted for at the rates of exchange in effect at year end and the resulting unrealized gains or losses are included in the net unrealized change in fair value in investments.

(e) Capital disclosure:

The main objective of the Plan is to sustain a certain level of net assets in order to meet the pension obligations of the University. The Plan fulfils its primary objective by adhering to specific investment policies outlined in its Statement of Investment Policies and Procedures (the "SIPP"), which is reviewed annually by the University. The Plan manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds contributed by the members and sponsor in accordance with the approved SIPP.

Although there are no regulatory requirements relating to the level of net assets and/or funding to be maintained by the Plan, the Plan is required to file financial statements with the Financial Services Commission of Ontario.

(f) Estimates:

The preparation of financial statements requires management to make estimates and assumptions that 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 amounts could differ from these estimates.

THE UNIVERSITY OF WESTERN ONTARIO
PENSION PLAN FOR MEMBERS OF THE ACADEMIC STAFF
DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

4. Future new accounting pronouncement:

The Accounting Standards Board's ("AcSB") April 2008 Exposure Draft, Adopting IFRS in Canada, proposed that, upon adoption of International Financial Reporting Standards ("IFRS") by publicly accountable enterprises, pension plans would continue to prepare their financial statements in accordance with CICA Handbook Section 4100, Pension Plans ("Section 4100"), rather than International Accounting Standards 26, Accounting and Reporting by Retirement Benefit Plans. On July 30, 2009, the AcSB issued an Exposure Draft that proposed changes to existing Section 4100 in the areas of presentation and disclosure. It also provided more guidance on how to measure fair value of investment assets and investment liabilities. In February 2010, the AcSB approved CICA Handbook Section 4600, Pension Plans ("Section 4600"), as Part IV of the CICA Handbook. The new Section 4600 was released in April 2010 and is based on existing Section 4100 with substantive modifications and will be effective for annual financial statements for fiscal years beginning on or after January 1, 2011. The Plan is currently in the process of evaluating the impact of adopting Section 4600.

THE UNIVERSITY OF WESTERN ONTARIO
PENSION PLAN FOR MEMBERS OF THE ACADEMIC STAFF
DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

5. Investments and investment income:

- (a) The Plan owns pro-rata shares of each investment with the Master Trust, based on units held by individual members, as follows:

	2010		2009	
	Cost	Market	Cost	Market
Short-term:				
Money Market Fund	\$ 35,304,870	\$ 35,331,428	\$ 34,213,964	\$ 34,189,513
Balanced funds:				
Balanced Income Fund	15,659,932	18,576,262	15,712,180	17,518,025
Balanced Growth Fund	37,203,660	44,109,309	35,636,474	39,573,277
Balanced Growth Fund B	-	-	-	-
Bonds:				
Immunized Bond Fund	4,519,816	4,614,833	-	-
Target Date Fund 2010	-	-	7,146,446	8,565,368
Target Date Fund 2012	7,915,820	9,082,404	4,535,305	5,198,564
Target Date Fund 2014	6,451,326	7,003,236	6,710,799	6,971,195
Target Date Fund 2016	3,627,897	3,720,274	-	-
Diversified Bond Fund	94,995,102	123,384,830	100,235,054	121,223,826
Canadian Bond Fund	9,153,613	11,828,761	8,298,298	10,376,567
Long Term Bond Fund	11,272,449	11,845,921	11,132,326	11,100,484
Equities:				
Diversified Equity Fund	168,725,592	187,559,273	181,104,715	181,068,774
Canadian Equity Fund	37,947,978	40,813,531	35,923,968	34,746,953
Socially Responsible				
Investments	1,427,936	1,573,730	1,687,179	1,745,301
U.S. Equity Hedged				
Fund	7,581,984	8,592,059	6,458,877	6,752,826
U.S. Equity Unhedged				
Fund	4,524,465	4,991,664	4,395,854	4,554,447
Non-North American				
Equity Fund	13,434,743	11,220,233	13,324,792	11,063,404
Liquidating Trust	9,277,060	6,968,056	10,976,820	7,301,873
	\$469,024,243	\$531,215,804	\$477,493,051	\$501,950,397

THE UNIVERSITY OF WESTERN ONTARIO
PENSION PLAN FOR MEMBERS OF THE ACADEMIC STAFF
DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

5. Investments and investment income (continued):

(b) The investment income of the Master Trust consists of the following:

	2010	2009
Interest:		
Securities lending	\$ 21,489	\$ 26,978
Short-term notes	129,148	442,272
Cash balances	149,373	91,867
Bonds and debentures:		
Government	1,000,696	970,161
Corporate	554,397	487,372
Dividends:		
Domestic	6,315,752	4,209,726
Foreign	644,983	425,120
	\$ 8,815,838	\$ 6,653,496
Allocated to:		
Academic Staff Pension Plan	\$ 4,274,177	\$ 3,268,520
Administrative Staff Pension Plan	2,985,171	2,227,958
Retirement Income Fund	1,556,490	1,157,018
	\$ 8,815,838	\$ 6,653,496

THE UNIVERSITY OF WESTERN ONTARIO
PENSION PLAN FOR MEMBERS OF THE ACADEMIC STAFF
DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

5. Investments and investment income (continued):

(c) The maturity dates of individual debt securities of the Master Trust consists of the following:

2010	One year or less	One to five years	Five to ten years	More than ten years	No maturity date	Total \$	Total %
Short-term:							
Individual holdings	\$ 59,145,747	\$ -	\$ -	\$ -	\$ -	\$ 59,145,747	16.2
Bonds and debentures:							
Individual holdings Canadian:							
Government bonds	2,796,975	94,359,015	39,905,566	51,516,192	-	188,577,748	35.3
Corporate bonds	18,987,237	13,663,785	11,604,762	20,879,916	-	65,135,700	16.3
Individual holdings Global:							
Government bonds	-	33,412,083	20,694,353	24,317,300	-	78,423,736	14.6
Corporate bonds	770,826	23,042,176	34,707,300	13,666,186	-	72,186,488	17.6
	\$ 81,700,785	\$ 164,477,059	\$ 106,911,981	\$ 110,379,594	\$ -	\$ 463,469,419	100.0
Percentage of total	23.2%	35.7%	16.2%	24.9%	-	100.0%	

THE UNIVERSITY OF WESTERN ONTARIO
PENSION PLAN FOR MEMBERS OF THE ACADEMIC STAFF
DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

5. Investments and investment income (continued):

(c) (continued):

2009	One year or less	One to five years	Five to ten years	More than ten years	No maturity date	Total \$	Total %
Short-term:							
Individual holdings	\$ 76,257,509	\$ -	\$ -	\$ -	\$ -	\$ 76,257,509	16.2
Bonds and debentures:							
Individual holdings Canadian:							
Government bonds	19,877,779	84,847,543	19,931,364	41,940,583	-	166,597,269	35.3
Corporate bonds	11,952,916	22,743,679	9,581,663	32,714,301	-	76,992,559	16.3
Individual holdings Global:							
Government bonds	611,324	28,213,317	17,698,982	22,183,745	-	68,707,368	14.6
Corporate bonds	709,279	32,443,336	29,065,116	20,826,331	-	83,044,062	17.6
	\$ 109,408,807	\$ 168,247,875	\$ 76,277,125	\$ 117,664,960	\$ -	\$ 471,598,767	100.0
Percentage of total	23.2%	35.7%	16.2%	24.9%	-	100.0%	

THE UNIVERSITY OF WESTERN ONTARIO
PENSION PLAN FOR MEMBERS OF THE ACADEMIC STAFF
DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

5. Investments and investment income (continued):

- (d) The weighted average market yield rates for individual debt securities of the Master Trust consists of the following:

2010				
	One year or less	One to five years	Five to ten years	More than ten years
Short-term:				
Individual holdings	0.1%	-	-	-
Bonds and debentures:				
Individual holdings:				
Canadian government bonds	1.2%	2.7%	3.3%	4.1%
Canadian corporate bonds	1.3%	3.2%	4.6%	5.3%
Global government bonds	0%	4.0%	3.5%	4.3%
Global corporate bonds	1.4%	3.3%	5.0%	5.7%

2009				
	One year or less	One to five years	Five to ten years	More than ten years
Short-term:				
Individual holdings	0.1%	-	-	-
Bonds and debentures:				
Individual holdings:				
Canadian government bonds	0.4%	2.0%	3.5%	4.3%
Canadian corporate bonds	0.7%	3.6%	4.9%	4.3%
Global government bonds	0.5%	3.1%	3.6%	4.3%
Global corporate bonds	0.5%	4.2%	5.4%	5.7%

THE UNIVERSITY OF WESTERN ONTARIO
PENSION PLAN FOR MEMBERS OF THE ACADEMIC STAFF
DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

6. Individually significant investments:

The following information is provided in respect of individual investments in the Master Trust with a cost or market value in excess of 1% of the cost or market value of the Master Trust as at December 31, 2010, as required by the Pension Benefits Act (Ontario).

The Master Trust consists of nineteen separate investment pools as described in note 1. Within these pools some investments are in units of pooled funds and some investments are individual securities.

	Cost	Market
Bonds:		
Pooled Funds:		
UWO SSGA Canadian Bond Fund	\$114,738,172	\$151,875,406
UWO Alliance Global Plus Bond Fund	135,393,623	168,498,531
Equities:		
Pooled Funds:		
Greystone Canadian Equity Fund	68,094,905	80,727,354
Connor Clark & Lunn Core Fund	75,154,738	80,159,821
Beutel Canadian Equity Fund	74,707,574	79,902,016
SSGA S&P 500 U.S. Equity Fund, Hedged	82,945,870	101,023,148
SSGA S&P 400 Midcap	9,404,304	12,512,305
PanAgora Small Cap Core Equity	14,481,982	12,197,277
Alliance Bernstein Equity Cap Fund	80,105,362	80,479,817
Mackenzie Socially Responsible Investments	2,483,174	2,725,706
T. Rowe Price Global Equity Fund	39,157,157	41,660,093
Harris Associates Global Large Cap LP	34,434,887	42,744,338
Fidelity Global Fund	76,646,146	80,785,670

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

7. General account:

This account represents the assets available to meet the ongoing pension liability of the University and any obligations resulting from the supplemental benefits payable to special members who are entitled to a minimum defined benefit guarantee. An allocation for expenses recoverable by the University as a result of contribution holidays is also made from the general account. The investment of assets in the general account is made at the discretion of the Pension Board. The investment allocation for 2010 was 100% Immunized Bond Fund and 60% Diversified Bond Fund and 40% Diversified Equity Fund for 2009.

The actuarial present value of accrued pension benefits for members entitled to pension payments subject to a minimum defined benefit guarantee as at December 31, 2010 and 2009, and the principal components of changes in this value during the year were as follows:

	2010	2009
Actuarial present value of accrued pension benefits, beginning of year	\$ 5,058,000	\$ 5,168,000
Accrued interest on benefits	232,000	-
Administrative expenses accrued	-	324,000
Benefits and administrative expenses paid	(820,000)	(807,000)
Mortality experience and change in assumptions	689,000	373,000
Actuarial present value of accrued pension benefits, end of year	5,159,000	5,058,000
Approximate market value of general account, end of year	4,902,000	5,688,000
Surplus/(deficit)	\$ (257,000)	\$ 630,000

The actuarial present value of accrued pension benefits as at December 31, 2010 is based on an actuarial valuation performed as at that date. The valuation reflects the best estimate of assumptions and the expectation the Plan will continue on an ongoing basis. Significant assumptions are as follows:

	2010	2009
Discount rate	2.55 %	5.00 %
Expected long-term rate of return on plan assets	2.55 %	5.00 %

THE UNIVERSITY OF WESTERN ONTARIO
PENSION PLAN FOR MEMBERS OF THE ACADEMIC STAFF
DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

8. General account (continued):

Life expectancy of members is based upon the Uninsured Pensioner Mortality Table for 1994 projected to 2015.

A retirement option was made available to members in 1991 which allowed a member to purchase a pension from the Plan upon retirement assuming a return of 6%. When the actual rate of return is higher than the assumed rate, the pension payments are increased. As at December 31, 2010, the balance in the general account included approximately \$135,862 (2009 - \$179,548) for the payment of annuities under the Excess Earnings Option and these were invested in the ratio of 60/40 in the Target Date Funds and the Diversified Equity Funds. The Income Tax Act no longer permits pension plans to establish excess earnings annuities.

8. Income taxes:

The Plan is governed by the Pension Benefits Act (Ontario). As a registered pension plan under the Income Tax Act, Canada, the Plan is not liable for any income taxes.

9. Contributions:

Contributions received by the Plan were as follows:

	Regular	Voluntary	2010 Total	2009 Total
Members	\$ 5,787,744	\$ 2,474,575	\$ 8,262,319	\$ 7,816,081
The University of Western Ontario	14,993,332	-	14,993,332	13,848,391
Other participating employers	531,510	-	531,510	513,769
	15,524,842	-	15,524,842	14,362,160
	\$ 21,312,586	\$ 2,474,575	\$ 23,787,161	\$ 22,178,241

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

10. Administrative costs recovered by the University:

Non-investment administrative expenses for participants of the Plan are incurred by the University on behalf of the Plan and are funded by various methods as follows:

- (i) For active employees of the University, the costs are paid by the University out of the corporate benefits budget.
- (ii) For employees of other participating employers and former employees of the University, certain costs are recovered by the University through bi-annual redemptions of investments from the individual members' accounts.

The following summarizes the total non-investment administrative expenses incurred by the University for the Plan and the recovery of those costs.

	2010	2009
Administrative expenses incurred:		
Salaries and benefits	\$ 439,648	\$ 499,482
Other professional fees	266,542	211,202
Office supplies and equipment	11,927	6,432
Systems and software	68,434	61,631
Filing fees	23,069	19,837
Audit fees	28,423	23,015
Professional development and membership	3,686	4,383
HST accrual on deemed services	57,895	-
Member communications and education	4,484	6,786
	<u>904,108</u>	<u>832,768</u>
Recoveries:		
Paid by the University out of corporate benefits budget	813,223	739,413
Administrative costs recovered by the University	90,885	93,355
	<u>904,108</u>	<u>832,768</u>
	<u>\$ -</u>	<u>\$ -</u>

Administrative costs were funded as follows:

	2010	2009
Fees from former employees	\$ 66,585	\$ 69,855
Fees from other participating employers	24,300	23,500
	<u>\$ 90,885</u>	<u>\$ 93,355</u>

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11. Fund managers' fees:

Fund managers' fees include any fees paid by the custodian to the various fund managers. Fund managers' fees of certain pooled funds are netted against the unit value of those pooled funds.

12. Financial instruments:

(a) Fair values:

The fair values of investments are as described in note 6(a). The fair values of other financial assets and liabilities, being cash, accrued income, and accrued expenses and benefits payable approximate the carrying values due to the short-term nature of these financial instruments.

Fair value measurements recognized in the statement of net assets available for benefits are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values.

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for assets and liabilities that are not based on observable market data.

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13. Financial instruments (continued):

(a) Fair values (continued):

The following table illustrates the classification of the Plan's financial instruments using the fair value hierarchy as at December 31, 2010:

	Level 1	Level 2	Level 3	Total
Short-term:				
Money Market Fund	\$ -	\$ 35,331,428	\$ -	\$ 35,331,428
Balanced Funds:				
Balanced Income Fund	-	18,576,262	-	18,576,262
Balanced Growth Fund	-	44,109,309	-	44,109,309
Bonds:				
Target Date Fund 2010	-	-	-	-
Target Date Fund 2012	-	9,082,404	-	9,082,404
Target Date Fund 2014	-	7,003,236	-	7,003,236
Target Date fund 2016	-	3,720,274	-	3,720,274
Diversified Bond Fund	-	123,384,830	-	123,384,830
Canadian Bond Fund	-	11,828,761	-	11,828,761
Long-Term Bond Fund	-	11,845,921	-	11,845,921
Immunized Bond Fund	-	4,614,833	-	4,614,833
Equities:				
Diversified Equity Fund	-	187,559,273	-	187,559,273
Canadian Equity Fund	-	40,813,531	-	40,813,531
Socially Responsible Investments	-	1,573,730	-	1,573,730
US Equity Hedged Fund	-	8,592,059	-	8,592,059
US Equity Unhedged Fund	-	4,991,664	-	4,991,664
Non-North American	-	11,220,233	-	11,220,233
Liquidating Trust	-	6,968,056	-	6,968,056
	\$ -	\$531,215,804	\$ -	\$531,215,804

During the year, the liquidating trust equities changed from Level 3 to Level 2 as a result of the increased activity in the market.

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13. Financial instruments (continued):

(b) Associated risks:

(i) Market price risk:

Market price risk is the risk that value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issue or all other factors affecting all instruments traded in the market. As all of the Plan's financial instruments are carried at fair value with fair value changes recognized in the statement of changes in net assets available for benefits, all changes in market conditions will directly affect the change in net assets available for benefits. Market price risk is managed by the Administrator through construction of a diversified portfolio of instruments traded on various markets and across various industries. In addition, market price risk may be hedged using derivative financial instruments such as futures contracts.

As at December 31, 2010, had the value of the equity portfolio increased or decreased by 1% with all other variables remaining unchanged, net assets of the Plan would have increased or decreased respectively, by approximately \$2,911,999 (2009 - \$2,728,884) or 0.55% (2009 - 0.54%) of total net assets.

(ii) Foreign currency risk:

Foreign currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The Plan invests in financial instruments and enters into transactions denominated in U.S. dollars. Consequently, the Plan is exposed to risks that the exchange rate of the foreign currency may change in a manner that has an adverse affect on the value of the portion of the Plan's assets or liabilities denominated in currencies other than Canadian dollars. The Plan's overall currency positions and exposures are monitored on a regular basis by the Administrator.

As at December 31, 2010, if the Canadian dollar had strengthened or weakened by 1% in relation to foreign currencies held by the Plan, with all other variables held constant, net assets of the Plan would have decreased or increased respectively, by approximately \$1,289,565 (2009 - \$1,242,336) or 0.24% (2009 - 0.25%) of total net assets.

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13. Financial instruments (continued):

(b) Associated risks (continued):

(iii) Interest rate:

A portion of the Plan's assets financial assets and liabilities are interest bearing and as a result, the Plan is subject to certain level of interest rate risk. In general, bond returns are sensitive to changes in the level of interest rates, with longer term bonds being more sensitive to interest rate changes than shorter term bonds.

At December 31, 2010, had the prevailing interest rates increased or decreased by 1% with all other variables held constant, net assets of the Plan would have decreased or increased respectively, by approximately \$12,950,878 (2009 - \$10,683,650) or 2.44% (2009 - 2.13%) of total net assets.

(iv) Liquidity risk:

Liquidity risk is the risk that the Plan will not be able to meet its obligations as they fall due. The Plan maintains an investment policy, as approved by the Administrator, which contains asset mix guidelines which help to ensure the Plan is able to liquidate investments to meet its pension benefit or other obligations.