

DRAFT Financial Statements of

THE UNIVERSITY OF WESTERN ONTARIO

MASTER TRUST FOR THE PENSION PLANS FOR
THE ACADEMIC AND ADMINISTRATIVE STAFF AND
THE RETIREMENT INCOME FUND

Year ended December 31, 2010

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of The University of Western Ontario Master Trust for the Pension Plans for the Academic and Administrative Staff, and the Retirement Income Fund, which comprise the statement of net assets available for benefits as at December 31, 2010, 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.

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 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 and retirement income payments of The University of Western Ontario Master Trust for the Pension Plans for the Academic and Administrative Staff, and the Retirement Income Fund as at December 31, 2010, and the changes in net assets available for benefits and retirement income payments for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

May 18, 2011

London, Canada

DRAFT - May 11, 2011, 8:07 AM

THE UNIVERSITY OF WESTERN ONTARIO

MASTER TRUST FOR THE PENSION PLANS FOR THE ACADEMIC AND ADMINISTRATIVE
STAFF AND THE RETIREMENT INCOME FUND

Statement of Net Assets Available for Benefits and Retirement Income Payments

DRAFT

December 31, 2010, with corresponding figures for 2009

	2010	2009
Assets		
Cash	\$ 7,692,395	\$ 7,386,005
Accrued income	281,947	260,044
Investments (note 4(a))	1,102,254,768	1,030,445,594
	<u>1,110,229,110</u>	<u>1,038,091,643</u>
Liabilities		
Accrued expenses	1,134,348	939,179
Benefits and retirement income payments payable	3,049,204	4,345,214
	<u>4,183,552</u>	<u>5,284,393</u>
Net assets available for benefits and retirement income payments	<u>\$1,106,045,558</u>	<u>\$1,032,807,250</u>

See accompanying notes to financial statements.

On behalf of the Joint Pension Board:

_____ Chair

_____ Pension Board Secretariat

THE UNIVERSITY OF WESTERN ONTARIO

MASTER TRUST FOR THE PENSION PLANS FOR THE ACADEMIC AND ADMINISTRATIVE STAFF AND THE RETIREMENT INCOME FUND

Statement of Changes in Net Assets Available for Benefits and Retirement Income Payments

DRAFT

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

	2010	2009
Investment income:		
Investment income (note 4(b))	\$ 8,815,838	\$ 6,653,496
Net realized loss on sale of investments	1,517,753	(44,211,702)
Net unrealized change in fair value of investments	79,805,684	182,828,438
	<u>90,139,275</u>	<u>145,270,232</u>
Increase in net assets:		
Contributions (note 7)	42,554,224	40,648,810
Transfers in to plans and fund	1,107,255	2,582,303
	<u>43,661,479</u>	<u>43,231,113</u>
Decrease in net assets:		
Lump sum payments	(43,456,717)	(44,747,299)
Periodic pension payments	(14,963,713)	(11,704,872)
Fund managers' fees (note 9)	(669,125)	(371,772)
Administrative costs recovered by the University (note 8)	(482,827)	(459,498)
Custodian fees	(590,761)	(645,410)
Agency fees	(110,855)	(100,000)
Transaction costs	(288,449)	(378,806)
	<u>(60,562,447)</u>	<u>(58,407,657)</u>
Net increase for the year	<u>\$ 73,238,307</u>	<u>\$ 130,093,688</u>
Allocation of net increase for the year:		
Academic Staff Pension Plan	\$ 30,328,059	\$ 70,368,094
Administrative Staff Pension Plan	29,222,081	43,561,313
Retirement Income Fund	13,688,167	16,164,281
	<u>\$ 73,238,307</u>	<u>\$ 130,093,688</u>
Net assets available for benefits and retirement payments, beginning of year:		
Academic Staff Pension Plan	\$ 502,127,902	\$ 431,759,808
Administrative Staff Pension Plan	343,806,808	300,245,496
Retirement Income Fund	186,872,540	170,708,259
	<u>\$1,032,807,250</u>	<u>\$ 902,713,563</u>
Net assets available for benefits and retirement payments, end of year:		
Academic Staff Pension Plan	\$ 532,455,961	\$ 502,127,902
Administrative Staff Pension Plan	373,028,890	343,806,808
Retirement Income Fund	200,560,707	186,872,540
	<u>\$1,106,045,558</u>	<u>\$1,032,807,250</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF WESTERN ONTARIO

MASTER TRUST FOR THE PENSION PLANS FOR THE ACADEMIC AND ADMINISTRATIVE STAFF AND THE RETIREMENT INCOME FUND

DRAFT Notes to Financial Statements

Year ended December 31, 2010

1. Description of plan:

These financial statements of The University of Western Ontario Master Trust (the "Master Trust") present the combined activity for the Pension Plans for the Academic and Administrative Staff and the Retirement Income Fund (the "Plans" and "Fund", "UWO RIF" or "RIF" respectively). The following description of the Plans and Fund is a summary only. For more complete information, reference should be made to the plan agreements registered under the Income Tax Act, Canada, registration numbers 0358747, 0312710 and RIF 1220.

The Plans are primarily contributory defined contribution plans (some members have a defined benefit guarantee) for members of the Academic and Administrative staff of The University of Western Ontario (the "University") and other participating employers. The Plans are sponsored by the University and the legal plan Administrators are the Academic Staff Pension Board and the Administrative Staff Pension Board (the "Pension Boards"). The Fund is managed by the University. The Northern Trust Company, Canada ("Northern Trust") is the custodian of each of the funds and trustee to the RIF.

Under the terms of the pension plans, members, the University and other participating employers contribute to the Plans. 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 Plans, 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 Plans or on behalf of annuitants in the RIF. The assets related to these purchases are transferred at the time of purchase.

Certain members of the Plans are "special members" and as such are entitled to a minimum defined benefit guarantee. A special member of the Academic Pension Plan is a member who was an employee of the University and who attained age 45 on July 1, 1970. A special member of the Administrative Pension Plan is a member who has been continuously employed by the University since May 1, 1974. 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 Plans' designs changed to defined contribution. All special members of the Academic Pension Plan, 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

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Description of plan (continued):

Contributions and transfers are invested by the members and annuitants, at their option, into units of the Master Trust. The investment policies of the Master Trust are determined jointly by the Academic and Administrative Staff 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
- 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 (Socially Responsible Investments)
- 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.

Some of these investment funds are not available for the annuitants of the UWO RIF since they do not yet qualify as registered investments under the Income Tax regulations. The investment options that are offered to the annuitants of the RIF have all been registered with Canada Revenue Agency as Quasi-Mutual Fund Trusts.

THE UNIVERSITY OF WESTERN ONTARIO

MASTER TRUST FOR THE PENSION PLANS FOR THE ACADEMIC AND ADMINISTRATIVE STAFF AND THE RETIREMENT INCOME FUND

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

1. Description of plan (continued):

The contributions or transfers of each member or annuitant are credited to an individual account in the members' or annuitants' 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 or annuitant on termination of employment or termination of retirement income fund, or to the members' or annuitants' beneficiary on death.

Members or annuitants 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 and members of the RIF Program. 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 Boards.

2. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") for pension plans, since the Master Trust financial statements are primarily produced for filing with the Financial Services Commission of Ontario in connection with the requirements of the Plans. They present the information of the Master Trust as a separate financial reporting entity independent of the University and pension plan members and annuitants of the RIF. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires 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 and retirement income payments during the year. Actual results could differ from these estimates.

(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' and annuitants' 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. Any transfers from annuitants are reflected in the year in which they are due. Transfers into the pension plans and RIF are allocated to members' and annuitants' records effective the end of the month in which the transfer occurs.

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

2. Significant accounting policies (continued):

(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 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 amounts 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 stated at fair value. 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 and annuitants 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, custodian fees and fund managers' fees, is credited to unit holders each month.

Fund 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.

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STAFF AND THE RETIREMENT INCOME FUND

DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

2. 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 Master Trust is to sustain a certain level of net assets in order to meet the pension obligations and retirement income payments of the University, which are not presented or discussed in these financial statements. The Master Trust fulfills 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 Master Trust manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employee and employer contributions) in accordance with the approved SIPP. Increases in net assets is a direct result of investment income generated by investments held by the Master Trust and contributions into the Master Trust by eligible employees and by the University.

The main use of net assets is for benefits and retirement income payments to eligible members of the Master Trust's participating Plans and Fund. Although there are no regulatory requirements relating to the level of net assets and/or funding to be maintained by the Master Trust, the Master Trust does file financial statements with the Financial Services Commission of Ontario in connection with the requirements of the Plans and Fund.

(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.

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

3. 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. It is expected that a future pronouncement will clarify that the Master Trust will be required to comply with this new section. The Master Trust is currently in the process of evaluating the impact of adopting Section 4600.

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

4. Investments and investment income:

(a) The net assets of the Master Trust were invested as follows:

	2010		2009	
	Cost	Market	Cost	Market
Short-term:				
Money Market Fund	\$ 65,749,775	\$ 65,799,237	\$ 64,952,636	\$ 64,906,216
Balanced funds:				
Balanced Income Fund	25,962,932	30,797,979	25,263,249	28,166,825
Balanced Growth Fund	66,330,193	78,642,236	60,873,750	67,598,544
Bonds:				
Target Date Fund 2010	-	-	14,428,652	17,293,451
Target Date Fund 2012	16,856,478	19,340,681	14,965,956	17,154,631
Target Date Fund 2014	16,879,443	18,323,478	14,749,512	15,321,832
Target Date Fund 2016	9,506,669	9,748,734	-	-
Diversified Bond Fund	158,376,840	205,708,495	166,211,449	201,015,383
Canadian Bond Fund	54,173,481	70,005,703	51,010,170	63,785,419
Long Term Bond Fund	24,820,615	26,083,331	23,486,128	23,418,951
Immunized Bond Fund -				
Admin	1,436,430	1,757,879	1,706,606	1,962,587
Academic	4,519,816	4,614,833	-	-
Equities:				
Diversified Equity Fund	380,872,253	423,386,411	401,236,706	401,157,079
Canadian Equity Fund	85,925,451	92,413,911	78,217,669	75,654,941
Socially Responsible				
Investments	2,375,695	2,618,257	2,412,716	2,495,833
U.S. Equity Hedged				
Fund	12,520,911	14,188,952	10,808,946	11,300,870
U.S. Equity Unhedged				
Fund	6,549,441	7,225,740	6,357,581	6,586,949
Non-North American				
Equity Fund	20,054,575	16,748,889	20,348,700	16,895,265
Liquidating Trust	19,770,874	14,850,022	23,647,956	15,730,818
	\$ 972,681,872	\$1,102,254,768	\$ 980,678,382	\$1,030,445,594

THE UNIVERSITY OF WESTERN ONTARIO

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

4. 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

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

4. 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	12.8
Bonds and debentures:							
Individual holdings Canadian:							
Government bonds	2,796,975	94,359,015	39,905,566	51,516,192	-	188,577,748	40.7
Corporate bonds	18,987,237	13,663,785	11,604,762	20,879,916	-	65,135,700	14.1
Individual holdings Global:							
Government bonds	-	33,412,083	20,694,353	24,317,300	-	78,423,736	16.9
Corporate bonds	770,826	23,042,176	34,707,300	13,666,186	-	72,186,488	15.6
	\$ 81,700,785	\$164,477,059	\$106,911,981	\$110,379,594	\$ -	\$463,469,419	100.0
Percentage of total	17.6%	35.5%	23.1%	24.9%	-	100.0%	

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

4. 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	19.8%	33.0%	22.3%	24.9%	-	100.0%	

THE UNIVERSITY OF WESTERN ONTARIO

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

4. 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	- %	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

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

5. 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

THE UNIVERSITY OF WESTERN ONTARIO

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

6. Income taxes:

The Master Trust is governed by the Income Tax Act, Canada. The Plans are registered pension plans and the Fund is a group RIF under the Income Tax Act, Canada, and are not liable for any income taxes. Some of the investment accounts have been registered as Quasi-Mutual Fund Trusts and are subject to income tax on income within the trusts but the net income and net capital gains from these trusts have been distributed to the pension plans and the RIF prior to the end of the year.

7. Contributions:

Contributions received by the Plans were as follows:

	Regular	Voluntary	2010 Total	2009 Total
Members	\$ 10,013,305	\$ 4,343,638	\$ 14,356,943	\$ 13,722,964
The University of Western Ontario	27,299,444	-	27,299,444	26,074,496
Other participating employers	897,837	-	897,837	851,350
	28,197,281	-	28,197,281	26,925,846
	\$ 38,210,586	\$ 4,343,638	\$ 42,554,224	\$ 40,648,810

8. Administrative costs recovered by the University:

Non-investment administrative expenses for participants of the Plans and annuitants of the RIF Program are incurred by the University on behalf of the members and annuitants 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.
- (iii) For annuitants of the RIF, a portion of the costs are recovered through monthly redemptions of investments from the individual annuitants' accounts.

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

8. Administrative costs recovered by the University (continued):

The following summarizes the total non-investment administrative expenses incurred by the University for the Master Trust and the recoveries of those costs.

	2010	2009
Administrative expenses incurred:		
Salaries and benefits	\$ 933,718	\$ 979,376
Other professional fees	522,631	423,525
HST accrual on deemed services	113,520	-
Systems and software	134,184	120,846
Office supplies and equipment	23,387	12,612
Filing fees	38,448	33,061
Audit fees	55,732	45,127
Professional development and membership	7,227	8,594
Member communications and education	7,473	11,309
	<u>1,836,320</u>	<u>1,634,450</u>
Recoveries:		
Paid by the University out of corporate benefits budget	1,353,493	1,174,952
Administrative costs recovered by the University	<u>482,827</u>	<u>459,498</u>
	<u>1,836,320</u>	<u>1,634,450</u>
	<u>\$ -</u>	<u>\$ -</u>

Administrative costs were funded as follows:

	2010	2009
Fees from former employees	\$ 176,570	\$ 182,477
Fees from other participating employers	53,800	52,000
Fees from RIF annuitants	252,457	225,021
	<u>\$ 482,827</u>	<u>\$ 459,498</u>

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Year ended December 31, 2010

9. 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.

10. Transfers:

The following amounts were transferred into the RIF during the year:

	2010	2009
From the:		
Academic Staff Pension Plan	\$ 15,432,898	\$ 10,677,663
Administrative Staff Pension Plan	5,630,344	5,547,566
	<hr/> \$ 21,063,242	<hr/> \$ 16,225,229 <hr/>

11. Financial instruments:

(a) Fair values:

The fair values of investments are as described in note 5(a). The fair values of other financial assets and liabilities, being cash, accrued income, accrued expenses and benefits and retirement income payments payable approximate the carrying values due to the short-term nature of these financial instruments.

Fair value measurements recognized in the statement of changes in 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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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

12. 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	\$ -	\$ 65,799,237	\$ -	\$ 65,799,237
Balanced Funds:				
Balanced Income Fund	-	30,797,979	-	30,797,979
Balanced Growth Fund	-	78,642,236	-	78,642,236
Bonds:				
Target Date Fund 2012	-	19,340,681	-	19,340,681
Target Date Fund 2014	-	18,323,478	-	18,323,478
Target Date Fund 2016	-	9,748,734	-	9,748,734
Diversified Bond Fund	-	205,708,495	-	205,708,495
Canadian Bond Fund	-	70,005,703	-	70,005,703
Long Term Bond Fund	-	26,083,331	-	26,083,331
Immunized Bond Fund	-	1,757,879	-	1,757,879
Academic	-	4,614,833	-	4,614,833
Equities:				
Diversified Equity Fund	-	423,386,411	-	423,386,411
Canadian Equity Fund	-	92,413,911	-	92,413,911
Socially Responsible				
Investments	-	2,618,257	-	2,618,257
US Equity Hedged Fund	-	14,188,952	-	14,188,952
US Equity Unhedged				
Fund	-	7,225,740	-	7,225,740
Non-North American				
Equity Fund	-	16,748,889	-	16,748,889
Liquidating Trust	-	14,850,022	-	14,850,022
	\$ -	\$1,102,254,768	\$ -	\$1,102,254,768

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

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

12. 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 Trust'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 and retirement income payments. 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 Master Trust would have increased or decreased respectively, by approximately \$6,208,711 (2009 - \$5,698,600) or 0.56% (2009 - 0.55%) 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 Trust invests in financial instruments and enters into transactions denominated in U.S. dollars. Consequently, the Trust 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 Trust's assets or liabilities denominated in currencies other than Canadian dollars. The Trust'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 Master Trust, with all other variables held constant, net assets of the Master Trust would have decreased or increased respectively, by approximately \$2,718,217 (2009 - \$2,550,380) or 0.25% (2009 - 0.25%) of total net assets.

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DRAFT Notes to Financial Statements (continued)

Year ended December 31, 2010

12. Financial instruments (continued):

(b) Associated risks (continued):

(iii) Interest rate risk:

A portion of the Master Trust's assets financial assets and liabilities are interest bearing and as a result, the Master Trust 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 Master Trust would have decreased or increased respectively, by approximately \$26,290,093 (2009 - \$21,286,150) or 2.39% (2009 - 2.07%) of total net assets.

(iv) Liquidity risk:

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