

**DRAFT** Financial Statements of

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

Year ended December 31, 2009

## **AUDITORS' REPORT**

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

We have audited the statement of net assets available for benefits of the fund of The University of Western Ontario Pension Plan for Members of the Academic Staff as at December 31, 2009 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Administrator of the Plan. 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 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 our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as at December 31, 2009 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

London, Canada

April 23, 2010

# THE UNIVERSITY OF WESTERN ONTARIO

## PENSION PLAN FOR MEMBERS OF THE ACADEMIC STAFF

### Statement of Net Assets Available for Benefits

#### **DRAFT**

December 31, 2009, with comparative figures for 2008

	2009	2008
<b>Assets</b>		
Cash	\$ 1,299,021	\$ -
Accrued income	126,535	116,296
Investments (note 6(a))	501,950,397	432,341,219
	<u>503,375,953</u>	<u>432,457,515</u>
<b>Liabilities</b>		
Bank overdraft	-	187,820
Accrued expenses	328,809	304,709
Benefits payable	919,242	205,178
	<u>1,248,051</u>	<u>697,707</u>
<b>Net assets available for benefits</b>	<b>\$ 502,127,902</b>	<b>\$ 431,759,808</b>

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, 2009, with comparative figures for 2008

	2009	2008
Investment income:		
Investment income (note 6(b))	\$ 3,268,520	\$ 5,695,266
Net realized loss on sale of investments	(15,328,671)	(12,978,089)
Net unrealized change in fair value of investments	87,614,718	(109,135,293)
	<u>75,554,567</u>	<u>(116,418,116)</u>
Increase in net assets:		
Contributions (note 10)	22,178,241	21,132,656
Transfers in to plan	1,279,255	211,053
	<u>23,457,496</u>	<u>21,343,709</u>
Decrease in net assets:		
Lump sum payments	(16,559,533)	(13,727,774)
Transfers to RIF	(10,677,663)	(9,901,377)
Periodic pension payments	(808,161)	(842,349)
Fund managers' fees (note 12)	(4,044)	(47,365)
Custodian fees	(314,122)	(302,666)
Administrative costs recovered by the University (note 11)	(93,355)	(88,285)
Transaction costs	(187,091)	(153,052)
	<u>(28,643,969)</u>	<u>(25,062,868)</u>
Net increase for the year	<u>\$ 70,368,094</u>	<u>\$ (120,137,275)</u>
Allocation of net increase (decrease) for the year:		
Members' accounts	\$ 70,360,094	\$ (118,003,887)
General account (note 8)	8,000	(2,133,388)
	<u>\$ 70,368,094</u>	<u>\$ (120,137,275)</u>
Net assets available for benefits, beginning of year:		
Members' accounts	\$ 426,079,808	\$ 544,083,695
General account (note 8)	5,680,000	7,813,388
	<u>\$ 431,759,808</u>	<u>\$ 551,897,083</u>
Net assets available for benefits, end of year:		
Members' accounts	\$ 496,439,902	\$ 426,079,808
General account (note 8)	5,688,000	5,680,000
	<u>\$ 502,127,902</u>	<u>\$ 431,759,808</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, 2009

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**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, 2009

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**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 sixteen separate investment pooled funds as follows:

- Money Market Fund
- Target Date Fund 2010
- Target Date Fund 2012
- Target Date Fund 2014
- Balanced Income Fund
- Balanced Growth Fund
- Diversified Bond Fund
- Canadian Bond Fund
- Canadian Long Term Bond Fund
- 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 sixteen 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.

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**DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2009

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**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.

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**DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2009

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**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.



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**DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2009

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**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.

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**DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2009

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**4. Impact of new accounting standards:**

In June 2009, the CICA amended Section 3862, Financial Instruments - Disclosures, to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for the Plan for the year ended December 31, 2009.

The additional disclosures as a result of adopting these amendments have been detailed in note 13(a).

**5. Future new accounting pronouncement:**

The Accounting Standards Board's ("AcSB") April 2008 Exposure Draft, Adopting IFRS in Canada, proposed that, upon adoption of International Foreign 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.

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**DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2009

**6. 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:

	2009		2008	
	Cost	Market	Cost	Market
Short-term:				
Money Market Fund	\$ 34,213,964	\$ 34,189,513	\$ 36,254,970	\$ 36,227,647
Balanced funds:				
Balanced Income Fund	15,712,180	17,518,025	13,578,804	13,550,180
Balanced Income Fund B	-	-	3,429,366	3,108,133
Balanced Growth Fund	35,636,474	39,573,277	26,148,382	24,789,364
Balanced Growth Fund B	-	-	6,277,233	5,138,080
Bonds:				
Target Date Fund 2010	7,146,446	8,565,368	8,505,720	9,937,723
Target Date Fund 2012	4,535,305	5,198,564	4,283,299	4,883,448
Target Date Fund 2014	6,710,799	6,971,195	5,338,539	5,686,833
Diversified Bond Fund	100,235,054	121,223,826	99,756,796	110,946,158
Canadian Bond Fund	8,298,298	10,376,567	8,303,017	10,030,886
Long Term Bond Fund	11,132,326	11,100,484	10,856,967	10,889,896
Equities:				
Diversified Equity Fund	181,104,715	181,068,774	192,019,796	139,915,468
Diversified Equity Fund B	-	-	13,003,510	9,329,044
Canadian Equity Fund	35,923,968	34,746,953	33,178,275	24,600,208
Socially Responsible				
Investments	1,687,179	1,745,301	1,516,440	1,193,420
U.S. Equity Hedged Fund	6,458,877	6,752,826	7,613,573	4,072,268
U.S. Equity Hedged Fund B	-	-	1,771,766	1,403,544
U.S. Equity Unhedged				
Fund	4,395,854	4,554,447	5,180,158	3,310,030
U.S. Equity Unhedged				
Fund B	-	-	1,750,321	1,439,256
Non-North American				
Equity Fund	13,324,792	11,063,404	14,451,502	10,553,115
Liquidating Trust	10,976,820	7,301,873	2,280,157	1,336,518
	\$477,493,051	\$501,950,397	\$495,498,591	\$432,341,219

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

Year ended December 31, 2009

**6. Investments and investment income (continued):**

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

	2009	2008
Interest:		
Securities lending	\$ 26,978	\$ 17,715
Short-term notes	442,272	1,083,337
Cash balances	91,867	326,895
Bonds and debentures:		
Government	970,161	1,309,902
Corporate	487,372	940,910
Dividends:		
Domestic	4,209,726	4,798,701
Foreign	425,120	3,349,393
	<b>\$ 6,653,496</b>	<b>\$ 11,826,853</b>
Allocated to:		
Academic Staff Pension Plan	\$ 3,268,520	\$ 5,695,266
Administrative Staff Pension Plan	2,227,958	3,942,884
Retirement Income Fund	1,157,018	2,188,703
	<b>\$ 6,653,496</b>	<b>\$ 11,826,853</b>

**THE UNIVERSITY OF WESTERN ONTARIO**  
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**DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2009

**6. Investments and investment income (continued):**

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

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
	\$ 09,408,807	\$ 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, 2009

**6. Investments and investment income (continued):**

(c) (continued):

2008	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	\$ 69,908,365	\$ -	\$ -	\$ -	\$ -	\$ 69,908,365	16.9
Bonds and debentures:							
Individual holdings Canadian:							
Government bonds	2,204,031	82,048,893	34,553,843	47,134,418	-	165,941,185	40.2
Corporate bonds	6,452,699	19,722,691	11,371,969	16,759,487	-	54,306,846	13.1
Individual holdings Global:							
Government bonds	1,432,119	18,830,853	16,161,935	23,120,061	-	59,544,968	14.4
Corporate bonds	1,608,348	15,911,609	30,207,342	15,631,988	-	63,359,287	15.3
	\$ 81,605,562	\$ 136,514,046	\$ 92,295,089	\$ 102,645,954	\$ -	\$ 413,060,651	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, 2009

**6. Investments and investment income (continued):**

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

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%
2008				
	One year or less	One to five years	Five to ten years	More than ten years
Short-term:				
Individual holdings	0.7%	-	-	-
Bonds and debentures:				
Individual holdings:				
Canadian government bonds	2.7%	2.0%	2.9%	4.5%
Canadian corporate bonds	3.9%	6.2%	7.1%	7.5%
Global government bonds	5.6%	2.5%	3.2%	4.6%
Global corporate bonds	6.8%	9.2%	8.2%	8.6%

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**DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2009

**7. 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, 2009, as required by the Pension Benefits Act (Ontario).

The Master Trust consists of sixteen 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
<b>Bonds:</b>		
Pooled Funds:		
UWO SSGA Canadian Bond Fund	\$112,290,377	\$142,757,634
UWO Alliance Global Plus Bond Fund	140,877,641	162,039,510
<b>Equities:</b>		
Pooled Funds:		
Greystone Canadian Equity Fund	49,440,738	53,867,306
Connor Clark & Lunn Core Fund	58,616,507	53,548,234
Highstreet Canadian Equity Fund	47,164,205	53,254,145
Beutel Canadian Equity Fund	57,309,737	53,209,361
SSGA S&P 500 U.S. Equity Fund, Hedged	83,503,125	91,078,343
SSGA S&P 400 Midcap	10,992,225	11,802,043
PanAgora Small Cap Core Equity	16,760,042	11,723,460
Alliance Bernstein Equity Cap Fund	86,766,363	75,851,452
T. Rowe Price Global Equity Fund	40,005,424	40,344,258
Harris Associates Global Large Cap LP	35,201,331	39,898,336
Fidelity Global Fund	75,043,026	76,137,245



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Year ended December 31, 2009

**8. 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 2009 and 2008 was 60% Diversified Bond Fund and 40% Diversified Equity Fund.

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, 2009 and 2008, and the principal components of changes in this value during the year were as follows:

	2009	2008
Actuarial present value of accrued pension benefits, beginning of year	\$ 5,168,000	\$ 6,051,000
Accrued interest on benefits	-	304,000
Administrative expenses accrued	324,000	-
Benefits and administrative expenses paid	(807,000)	(860,000)
Mortality experience and change in assumptions	373,000	(327,000)
Actuarial present value of accrued pension benefits, end of year	5,058,000	5,168,000
Approximate market value of general account, end of year	5,688,000	5,680,000
<b>Surplus</b>	<b>\$ 630,000</b>	<b>\$ 512,000</b>

The actuarial present value of accrued pension benefits as at December 31, 2009 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:

	2009	2008
Discount rate	5.00 %	6.80 %
Expected long-term rate of return on plan assets	5.00 %	6.80 %
Rate of compensation increase	3.50 %	3.50 %

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Year ended December 31, 2009

**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, 2008, the balance in the general account included approximately \$179,548 (2008 - \$236,966) 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.

**9. 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.

**10. Contributions:**

Contributions received by the Plan were as follows:

	Regular	Voluntary	2009 Total	2008 Total
Members	\$ 5,296,635	\$ 2,519,446	\$ 7,816,081	\$ 7,483,069
The University of Western Ontario	13,848,391	-	13,848,391	13,181,920
Other participating employers	513,769	-	513,769	467,667
	14,362,160	-	14,362,160	13,649,587
	\$ 19,658,795	\$ 2,519,446	\$ 22,178,241	\$ 21,132,656

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**DRAFT** Notes to Financial Statements (continued)

Year ended December 31, 2009

**11. 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.

	2009	2008
Administrative expenses incurred:		
Salaries and benefits	\$ 499,482	\$ 453,317
Other professional fees	211,202	188,530
Office supplies and equipment	6,432	19,946
Systems and software	61,631	58,931
Filing fees	19,837	23,775
Audit fees	23,015	28,186
Professional development and membership	4,383	11,633
<u>Member communications and education</u>	<u>6,786</u>	<u>3,745</u>
	832,768	788,063
Recoveries:		
Paid by the University out of corporate benefits budget	739,413	699,778
<u>Administrative costs recovered by the University</u>	<u>93,355</u>	<u>88,285</u>
	832,768	788,063
	\$ -	\$ -

Administrative costs were funded as follows:

	2009	2008
Fees from former employees	\$ 69,855	\$ 64,885
Fees from other participating employers	23,500	23,400
	\$ 93,355	\$ 88,285

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**12. 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.

**13. 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 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, 2009:

	Level 1	Level 2	Level 3	Total
Short-term:				
Money Market Fund	\$ -	\$ 34,189,513	\$ -	\$ 34,189,513
Balanced Funds:				
Balanced Income Fund	-	17,518,025	-	17,518,025
Balanced Growth Fund	-	39,573,277	-	39,573,277
Bonds:				
Target Date Fund 2010	-	8,565,368	-	8,565,368
Target Date Fund 2012	-	5,198,564	-	5,198,564
Target Date Fund 2014	-	6,971,195	-	6,971,195
Diversified Bond Fund	-	21,223,826	-	21,223,826
Canadian Bond Fund	-	10,376,567	-	10,376,567
Long-Term Bond Fund	-	11,100,484	-	11,100,484
Equities:				
Diversified Equity Fund	-	81,068,774	-	81,068,774
Canadian Equity Fund	-	34,746,953	-	34,746,953
Socially Responsible Investments	-	1,745,301	-	1,745,301
US Equity Hedged Fund	-	6,752,826	-	6,752,826
US Equity Unhedged Fund	-	4,554,447	-	4,554,447
Non-North American	-	11,063,404	-	11,063,404
Liquidating Trust	-	-	7,301,873	7,301,873
	\$ -	\$494,648,524	\$ 7,301,873	\$501,950,397

The Level 3 investments represent holdings in non-bank asset backed commercial paper ("ABCP") for which there is currently limited market data.

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Year ended December 31, 2009

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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, 2009, 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 \$2,775,900 (2008 - \$2,278,270) or 0.55% (2008 - 0.52%) 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, 2009, 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 \$1,242,340 (2008 - \$1,114,033) or 0.25% (2008 - 0.26%) of total net assets.

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Year ended December 31, 2009

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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, 2009, 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 \$10,368,904 (2008 - \$10,171,123) or 2.07% (2008 - 2.33%) 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.

The Plan holds ABCP securities with a cost basis of \$10,976,820 which have a recorded fair value of \$7,301,873. In August, 2007, these ABCP securities stopped trading and redemption restrictions were imposed by the Fund manager. These securities were exchanged for restructured notes and subsequent to year end a liquid market has begun to develop for these notes.