

**THE PENSION PLANS OF THE UNIVERSITY OF GUELPH
COMBINED FINANCIAL STATEMENTS**

For the Year Ended September 30, 2009

February 10, 2010

Auditors' Report

To the Board of Governors of the University of Guelph

We have audited the combined statement of net assets available for benefits of the Pension Plans of the University of Guelph (the "Plans") as at September 30, 2009 and the combined statement of changes in net assets available for benefits for the year then ended. These financial statements have been prepared to comply with Section 76 of Regulation 909 to the Pension Benefits Act of the Province of Ontario. These financial statements are the responsibility of the pension plan's management. 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 the Plan's management, as well as evaluating the overall financial statement presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the combined net assets available for benefits as at September 30, 2009 and the combined changes in net assets available for benefits for the year then ended in accordance with the basis of accounting as disclosed in note 1 to the financial statements.

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the Board of Governors of the University of Guelph and the Financial Services Commission of Ontario for complying with Section 76 of Regulation 909 to the Pension Benefits Act of the Province of Ontario. These financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

The Pension Plans of the University of Guelph

Combined Statement of Net Assets Available for Benefits

As at September 30, 2009

(in thousands of dollars)

	2009	2008
ASSETS		
Pooled Fund of University of Guelph Pension Plans (Note 4)	827,567	805,056
Employer contributions receivable	800	-
Member contributions receivable	470	565
	828,837	805,621
LIABILITIES		
Accounts payable (Note 5)	8,861	9,380
Net Assets Available for Benefits	819,976	796,241

The Pension Plans of the University of Guelph

Combined Statement of Changes in Net Assets Available for Benefits

As at September 30, 2009

(in thousands of dollars)

	2009	2008
Increase in Net Assets		
Employer contributions	14,420	41,098
Member contributions	13,551	12,984
	27,971	54,082
Investment income	27,504	31,608
Net realized gains	-	16,235
Net increase in unrealized gains	118,161	-
	145,665	47,843
Total Increase in Net Assets	173,636	101,925
Decrease in Net Assets		
Net realized losses	100,607	-
Net decrease in unrealized gains	-	142,635
Pension payments	38,448	37,038
Refunds of contributions	9,442	9,593
Administrative expenses and professional fees (Note 6)	1,404	1,335
	149,901	190,601
Total Decrease in Net Assets	149,901	190,601
Net Increase (Decrease) for the Year	23,735	(88,676)
Net Assets at Beginning of Year, at Market Value	796,241	884,917
Net Assets at End of Year, at Market Value	819,976	796,241

The Pension Plans of the University of Guelph

Notes to the Combined Financial Statements

For the Year Ended September 30, 2009

1. Significant Accounting Policies

Basis of Presentation

These financial statements present the net assets under the control of the administrator of the University of Guelph's three pension plans (registered with Canada Revenue Agency and the Financial Services Commission of Ontario, registration #0324616, #0324632 and #0324624).

Basis of Accounting

These financial statements have been prepared in accordance with the significant accounting policies set out below to comply with the accounting requirements prescribed by the Financial Services Commission of Ontario for financial statements under section 76 of Regulation 909 of the Pension Benefits Act of the Province of Ontario. The basis of accounting used in these financial statements materially differs from Canadian generally accepted accounting principles because it excludes the actuarial liabilities of the plans. Consequently, these financial statements do not purport to show the adequacy of the plan's assets to meet its pension obligations.

Change in Accounting Policies

Beginning this fiscal year the Pension Plans of the University of Guelph adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535: Capital Disclosures, which requires the disclosure of qualitative information on the Plan's managed capital. Details of this disclosure are provided in Note 3.

In addition the CICA released Handbook Section: 3862, *Financial Instruments –Disclosures and 3863, Financial Instruments –Presentation*, which enhance disclosures about the significance of financial instruments to the Plans financial position and performance, the nature and extent of risks arising from financial instruments, and how the Plans manage those risks.

Pooled Fund

The assets of the University of Guelph pension plans are administered as a single Pooled Fund. The value of the Pooled Fund is based on the market value of the underlying investments. Market values are determined using listed market values where available or comparable security prices as appropriate. Each of the University of Guelph Pension Plans interest in the Pooled Fund, is calculated based on the units held by each plan in the Pooled Fund.

The Pension Plans of the University of Guelph
Notes to the Combined Financial Statements
For the Year Ended September 30, 2009

1. Significant Accounting Policies (continued)

Realized Income

Realized income consists of realized gains and losses on the sale of investments, recorded at the settlement date and based on the average cost of the securities, plus interest income, recognized as it accrues, plus dividend income, recognized as of the ex-dividend date, less investment counsel fees and trustee fees.

Each of the University of Guelph Pension Plans pro-rata share of realized income, is calculated based on the units held by each plan in the Pooled Fund.

Contributions, Benefit Payments and Refunds

Contributions, benefit payments and refunds are recorded on the accrual basis.

2. Financial Instruments Risk Management

The objective of the Pension Plans investment portfolio is to achieve long-term investment growth to provide the Plans with assets sufficient to meet member's pension benefit payment obligations.

The Plans may invest in government guaranteed bonds, corporate bonds, equity securities, pooled and segregated funds, real estate and derivative financial instruments. Assets are managed by a variety of investment managers in accordance with documented investment policies established and monitored by the University's Investment Management Committee. The Plans activities expose it to a variety of financial risks, such as, market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The allocation of assets among various types of investments and performance of investments held by the Plans are monitored by the Investment Management Committee and reviewed by the Pension Committee. Divergence from target asset allocation and the composition of the portfolio is monitored by the Plans' Investment Management Committee.

The Pension Committee oversees how management monitors compliance with the Plans' risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Plans.

Market risk

The Plans' investments are susceptible to market risk which is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Plans' market risk is affected by the volatility of market rates or prices, such as interest rates, foreign exchange rates and equity prices.

The Pension Plans of the University of Guelph

Notes to the Combined Financial Statements

For the Year Ended September 30, 2009

2. Financial Instruments Risk Management (continued)

Interest rate risk

The Plans are subject to interest rate risk due to fluctuations in the prevailing levels of market interest rates on interest rate sensitive investments. The interest bearing investment portfolio has guidelines on concentration, duration and distribution which are designed to mitigate the risk of interest rate volatility.

Currency risk

The Plans hold assets denominated in currencies other than the Canadian dollar, the functional currency. It is therefore exposed to currency risk as the value of the financial instruments denominated in other currencies will fluctuate due to the changes in exchange rates.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Credit Risk

The Plans take on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Though policies and guidelines, the Investment Management Committee assesses all counterparties for credit risk before contracting with them and limits credit exposure based on credit ratings.

Liquidity Risk

Liquidity risk is the risk that the Plans may be unable to meet payment obligations in a timely manner at a reasonable cost or the risk of unexpected increases in the cost of planning the portfolio at appropriate maturities or rates.

Management of liquidity seeks to ensure that, even under adverse conditions the Plans have access to immediate cash necessary to cover benefits payable, withdrawals and other liabilities. Liquidity risk is managed through asset allocations and cash flow assessments which estimate cash requirements against availability.

3. Management of Capital

The capital of the Plans is represented by the net assets available for benefits. The University's objective when managing the Plan's capital is to safeguard the assets of the Plans to support the Plans' investment objectives.

The Pension Plans of the University of Guelph

Notes to the Combined Financial Statements

For the Year Ended September 30, 2009

4. Pooled Fund of the University of Guelph Pension Plans

- (a) The quoted market values of investments in the Pooled Fund, related accrued interest and dividend income receivable, and accrued investment counsel and trustee fees payable as at September 30, 2009 and September 30, 2008 are as follows:

[in thousands of dollars]	2009	2008
Canadian		
Bonds and debentures	256,664	276,983
Equities	201,043	174,167
Cash	4,947	(3,862)
Short-term notes and treasury bills	15,002	59,642
Pooled equity funds		1,110
	<u>477,656</u>	<u>508,040</u>
Foreign		
Equities	333,248	276,808
Bonds and debentures	4,093	3,849
Cash	8,929	11,883
	<u>346,270</u>	<u>292,540</u>
Total cash and investments	823,926	800,580
Accrued interest and dividends receivable	4,219	5,090
Accrued investment counsel and trustee fees payable	<u>(578)</u>	<u>(614)</u>
Total market value of Pooled Fund net assets	<u>827,567</u>	<u>805,056</u>

Fluctuations in the comparative figures noted above reflect changes in both asset mix and year end market values of securities held in the Pooled Fund.

The book value of assets held in the Pooled Fund at September 30, 2009, was \$785.6 million (2008 - \$881.3 million). The unrealized gain at September 30, 2009 was \$42.0 million (2008 - \$76.3 million loss).

The Pension Plans of the University of Guelph

Notes to the Combined Financial Statements

For the Year Ended September 30, 2009

4. Pooled Fund of the University of Guelph Pension Plans (continued)

(b) The Individually Significant Investments

The book or market value of the following investments exceeds 1% of the book or market value of total pension fund assets at September 30, 2009.

	Book	Market
<i>Canadian Pooled Short Term Funds - Money Market</i>		
RBC Dexia Investor Services STIF SER II	10,234	10,234
 <i>Canadian Bonds & Debentures</i>		
Canada Housing Trust	40,178	41,433
Government of Canada	66,308	66,943
Province of Ontario	13,865	14,273
Province of Quebec	10,873	11,201
	131,224	133,850
 <i>Canadian Stocks</i>		
Canadian Natural Res Ltd	4,366	8,688
Encana Corporation	9,222	10,897
Royal Bank of Canada	6,996	9,532
Suncor Energy Inc.	8,253	11,268
Toronto Dominion Bank	6,939	9,591
	35,776	49,976
 Total	177,234	194,060

5. Accounts Payable

[in thousands of dollars]	2009	2008
Refund of contributions plus interest	8,292	8,867
Administration fees to the University of Guelph	431	380
Professional fees (actuary, audit, legal)	104	96
Provincial regulatory fees and Pension Benefit Guarantee Fund	34	37
	8,861	9,380

The Pension Plans of the University of Guelph
Notes to the Combined Financial Statements
For the Year Ended September 30, 2009

6. Administrative Expenses and Professional Fees

[in thousands of dollars]	2009	2008
<i>Pooled Level Fees</i>		
Investment Management Fees	2,595	2,324
Custodial and Performance Management Fees	540	561
	3,135	2,885
<i>Plan Level Expenses</i>		
University of Guelph Administrative Fee	615	564
<u>Professional Fees:</u>		
Actuarial Fees	581	673
Legal, Accounting and Auditing Fees	39	27
Other Fees*	169	71
	1,404	1,335
Total Administrative Expenses and Professional Fees	4,539	4,220

* includes Provincial regulatory fees and Pension Benefit Guarantee Fund.

7. Related Party Transactions [in thousands of dollars]

During the year ended September 30, 2009, the University of Guelph charged the Pooled Fund \$615 (2008 - \$564) for administrative services.

8. Comparative Numbers

Certain comparative numbers have been reclassified to conform to the current year presentation.