PENSION FUND OF THE PENSION PLAN FOR NON-PROFESSIONAL STAFF OF THE UNIVERSITY OF GUELPH

For the Year Ended September 30, 2012

March 6, 2013

Independent Auditor's Report

To the Board of Governors of the University of Guelph

We have audited the accompanying financial statements of the Pension Fund of the Pension Plan for Non-Professional Staff of the University of Guelph (the Plan), which comprise the statement of net assets available for benefits as at September 30, 2012 and September 30, 2011 and the statement of changes in net assets available for benefits for the years then ended, and the related notes, which comprise 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 Section 76 of Regulation 909 to the Pension Benefits Act of the Province of Ontario.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Section 76 of Regulation 909 to the Pension Benefits Act of the Province of Ontario, 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.

Auditor's 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 the auditor's 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, the auditor considers 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.

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Opinion
In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as at September 30, 2012 and September 30, 2011 and the changes in its net assets available for benefits for the years then ended in accordance with the financial reporting provisions of Section 76 of Regulation 909 to the Pension Benefits Act of the Province of Ontario.

Basis of accounting and restriction on use
Without modifying our opinion, we draw attention to note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Plan to meet the requirements of the Financial Services Commission of Ontario. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the University of Guelph and the Financial Services Commission of Ontario and should not be used by parties other than the University of Guelph or the Financial Services Commission of Ontario.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Pension Fund of the Pension Plan for Non-Professional Staff of the University of Guelph

Statement of Net Assets Available for Benefits

As at September 30, 2012

(in thousands of dollars)

	2012	2011
ASSETS		
Interest in Pooled Fund of University of Guelph Pension Plans (Note 6)	13,812	12,721
LIABILITIES		
Interest in Pooled Fund of University of Guelph Pension Plans (Note 6)	15	-
Accrued liabilities (Note 7)	19	22
	34	22
Net Assets Available for Benefits	13,778	12,699

Pension Fund of the Pension Plan for Non-Professional Staff of the University of Guelph

Statement of Changes in Net Assets Available for Benefits

For the year ended September 30, 2012

(in thousands of dollars)

	2012	2011
Increase in Net Assets		
Net realized gains	239	416
Net increase in unrealized gains (losses)	1,065	(799)
Net change in fair values of investment assets and liabilities	1,304	(383)
Investment income (Note 6)	480	457
Member contributions (Note 8)	1	7
Total Increase in Net Assets	1,785	81
Decrease in Net Assets		
Benefit payments	613	591
Refunds and transfers out	5	-
Investment fees (Note 9)	64	68
Administrative expenses and professional fees (Note 9)	24	24
Total Decrease in Net Assets	706	683
Net Increase (Decrease) for the Year	1,079	(602)
Net Assets at Beginning of Year as previously reported	12,699	13,301
Net Assets at End of Year, at Market Value	13,778	12,699

1. Description of Plan

The following description of the Pension Plan for Non-Professional Staff of the University of Guelph (the “Plan”) is a summary only. For more complete information, reference should be made to the Plan Text.

General

The Plan is a contributory defined benefit pension plan and is registered with Canada Revenue Agency and the Financial Services Commission of Ontario (registration #0324632). The Plan holds units in the Pooled Fund of the University of Guelph Pension Plans. The Plan is integrated with the Canada Pension Plan (“CPP”).

Plan Eligibility

The option of joining this plan has been discontinued.

Service Pensions

A service pension is available based on the number of years of service, to a maximum of 35 years, times the sum of 1.267% (1.367% for USW Local 4120 members, Exempt Group members and CUPE 1334 members) of the best average earnings up to the average CPP yearly maximum pensionable earnings and 1.667% of the difference between average CPP yearly maximum pensionable earnings and best average earnings. Best average earnings are based on the employee’s best 36 consecutive months of earnings. The normal retirement age is 65.

Survivor Pensions

A survivor pension is paid to a spouse, a dependent child, or a named dependent of a plan member if so elected by the plan member.

Refunds

A death refund is payable to the estate of a pensioner or survivor where such pensions have not been paid to the full extent of contributions plus interest. Similarly, a death refund is payable to the named beneficiary of the estate of a plan member where no survivor pension is paid.

A withdrawal refund is payable when the University of Guelph receives an application, subject to lock-in provisions, from a plan member who ceases to be employed by the University of Guelph. The amount of the payment is determined in accordance with the actuarial valuation.

Vesting

Pension benefits vest in the plan member immediately upon joining the Plan.

1. Description of Plan (continued)

Income Taxes

The Plan is a registered pension plan as defined in the Income Tax Act (Canada) and, as such, is exempt from income taxes.

Funding Policy

In accordance with the Plan Text, plan members, who do not belong to USW 4120, the Exempt Group, or CUPE 1334, are required to contribute 3.75% of their salary up to CPP yearly maximum pensionable earnings and 5.25% of their salary above the CPP yearly maximum pensionable earnings to the Plan. USW 4120, Exempt Group and CUPE 1334 plan members are required to contribute 4.10%, 4.11% and 4.15%, respectively (prior to May 1, 2012, the contribution rates were 5.36%, 5.14% and 4.82%, respectively), of their salary up to CPP yearly maximum pensionable earnings and 5.25%, 5.25% and 6.32%, respectively, of their salary above the CPP yearly maximum pensionable earnings to the Plan. The University of Guelph is required to provide any additional funding, based on actuarial valuations (the most recent actuarial valuation filed with the Financial Services Commission of Ontario was prepared as of August 1, 2010), necessary to ensure that defined benefits will be fully provided for at retirement. Based on the most recent actuarial valuation, no contributions were made by the employer to the defined benefit plan.

2. Significant Accounting Policies

Basis of accounting and adoption of Canadian accounting standards for pension plans

The Financial Services Commission of Ontario (FSCO) allows the preparation of financial statements in accordance with Canadian generally accepted accounting principles, excluding recognition and disclosure of pension obligations to comply with the filing requirements of Section 76 of Regulation 909 of the Pension Benefits Act of the Province of Ontario. Accordingly, the Plan adopted Canadian accounting standards for pension plans (ASPP), excluding recognition and disclosure relating to the Plan’s pension obligations on October 1, 2011 with a transition date of October 1, 2010. Canadian accounting standards for pension plans require the Plan, in selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, to comply on a consistent basis with either International Financial Reporting Standards (IFRS) in Part I of the Canadian Institute of Chartered Accountants (CICA) Handbook or Canadian Accounting Standards for Private Enterprises (ASPE) in Part II of the CICA Handbook. The Plan has chosen to comply with ASPE.

The adoption of ASPP has had no impact on net assets available for benefits and changes therein.

These financial statements differ materially from financial statements prepared in accordance with Canadian accounting standards for pension plans as they exclude the recognition and disclosure of the pension obligation of the Plan and do not purport to show the adequacy of the Plan's assets to meet its pension obligations. These financial statements have been prepared to assist in meeting the requirements of FSCO.

2. Significant Accounting Policies (continued)

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 determined based on the fair value of the underlying investment assets and liabilities in accordance with IFRS 13, Fair Value Measurement. 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.

Investment Income

Investment income consists of interest income, recognized as it accrues, plus dividend income, recognized as of the ex-dividend date. The Plan's pro-rata share of investment income, is calculated based on the units held by each plan in the Pooled Fund.

Net change in fair values of investment assets and liabilities

Net realized gain on sale and settlement of investment assets and liabilities during the year represents the difference between sale or settlement proceeds and book value. Net change in unrealized gains (losses) on investment assets and liabilities represents the change in the difference between fair and book values of investment assets and liabilities at the beginning and ending of the year. All realized and net changes in unrealized gains and losses on investment assets and liabilities are recorded in the Statement of changes in net assets available for benefits in the year in which they occur. The Plan's pro-rata share of net realized gain (loss) and net change in unrealized gains (losses), 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.

3. Investment Risk Management

The objective of the Plan is to achieve medium to long-term growth of its investment portfolio to provide the Plan with assets sufficient to meet members' pension benefit obligations. The Plan's investment policy is established by the Board of Governors and is set out in the statement of investment policies and procedures (the SIPP).

The Plan invests in pooled funds that are in turn invested in government and government guaranteed bonds, corporate bonds, debentures, and equity securities. The investment managers of the funds must adhere to the investment policies established by the Board of Governors governing these funds which are monitored by the Investment Management Committee. The Plan's investing activities expose it to a variety of direct and indirect financial risks including market risk, credit risk and liquidity risk.

The allocation of assets among the various types of investments and the performance of investments held by the Plan are monitored by the Plan's investment managers on a monthly basis and are reviewed by the Investment Management Committee on a quarterly basis.

3. Investment Risk Management (continued)

The Pension Committee oversees how management monitors compliance with the Plan's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the long-term objectives of the Plan.

a. Market Risk

The Plan's investments are susceptible to market risk, which is defined as the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Plan's exposure to market risk is affected by changes in the level or volatility of market rates or prices, such as interest rates, foreign exchange rates and equity prices. The sensitivity analysis provided below discloses the effect on net assets available for benefits as at September 30, 2012, assuming that a reasonably possible change in the relevant risk variable has occurred at September 30, 2012 and has been applied to the risk exposures in existence at that date to show the effects of the reasonably possible changes. The reasonably possible changes in market variables used in the sensitivity analysis were determined based on implied volatilities where available or on historical data.

The sensitivity analysis provided is hypothetical and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced as the Plan's actual exposure to market rates may change. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in a market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Plan.

i. Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Plan is subject to interest rate risk though its holdings of variable interest rate instruments. The SIPP contains guidelines related to investments in interest bearing instruments, which address credit concentration, duration and distribution. These guidelines are designed to mitigate the interest rate risk at a level deemed acceptable by the Pension Committee.

As at September 30, 2012, had the market interest rates increased or decreased by 1% with all other variables held constant, the fair value of the fixed income holdings in the Plan and net assets available for benefits would have decreased or increased respectively, by approximately $0.3 million. As at September 30, 2012, duration and yield to maturity are 7.5 and 2.29%, respectively, for the overall fixed income portfolio.

3. Investment Risk Management (continued)

The terms to contractual maturity of interest bearing financial instruments as at September 30 are as follows:

[in thousands of dollars]					**2012**
	Terms to contractual maturity				
Interest bearing instrument	Within 1 year $	1 to 5 years $	6 to 10 years $	Over 10 years $	Total $
Canada*	10	931	342	323	1,606
Provincial	20	187	324	613	1,144
Municipal	-	34	19	8	61
Corporates	-	538	259	272	1,069
Other	-	4	-	-	4
Total	30	1,694	944	1,216	3,884

** includes cash*

ii. Currency risk

The Plan holds assets denominated in currencies other than the Canadian dollar, the Plan's 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.

As at September 30, 2012, had the foreign exchange rates increased or decreased by 10% with all other market variables held constant, the fair value of the foreign currency assets and net assets available for benefits of the Plan would have increased or decreased respectively as outlined in the following table:

[in thousands of dollars]	Currency Exposure	Currency Hedge*	Net Exposure	Estimated Impact
United States	3,255	1,698	1,557	156
Euro countires	905	473	432	43
United Kingdom	510	260	250	25
Japan	497	252	245	25
Other Europe	404	204	200	20
Other Pacific	268	100	168	17
Other global	92	38	53	5
	5,931	3,025	2,905	291

** Notional Value of Future Foreign Exchange Contracts*

3. Investment Risk Management (continued)

iii. 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.

As at September 30, 2012, had the prices of equity securities increased or decreased by 10% with all other variables held constant, the value of equities and net assets available for benefits would have increased or decreased respectively, by approximately $0.9 million.

b. Credit Risk

Credit risk is the risk one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Plan manages credit risk through the application and monitoring of its SIPP.

The Plan assesses all counterparties for credit risk before contracting with them. The Plan's maximum exposure to credit risk is detailed in the following table:

[in thousands of dollars]	2012	2011
Cash	581	372
Bonds and debentures	3,879	3,807
	4,460	4,179

The credit ratings of the fixed income portfolio as at September 30 is as follows:

[in thousands of dollars]		**2012**
Credit ratings	**$**	**%**
AAA	1,701	43.8%
AA	1,018	26.2%
A	1,002	25.8%
BBB	163	4.2%
	3,884	100.0%

c. Liquidity Risk

Liquidity risk is the risk the Plan may be unable to meet obligations in a timely manner. In addition to recurring expenses, the Plan is called upon to meet regular pension benefit payments as well as lump sum transfers and refunds that may occur upon retirement or termination of qualifying Plan members. The risk the Plan would be unable to meet such

3. Investment Risk Management (continued)

obligations is managed through the Plan's ongoing monitoring of the individual investment managers and in their ability to liquidate investments in which the Plan has invested. The risk in this area is assessed by the Plan to be insignificant.

4. Fair Value Measurement

The following is a summary of the methods used to determine the fair value of the Plan's financial instruments and an analysis of those investments using the hierarchy set forth in IFRS 7, Financial Instruments – Disclosures. The hierarchy prioritizes the inputs to fair value measurement, placing the highest priority on unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to inputs not based on observable market data (Level 3).

The three levels of the fair value hierarchy are:

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs that are observable for the assets or liabilities either directly or indirectly;
- Level 3 – inputs for assets or liabilities that are not based on observable market data.

The fair value hierarchy requires the use of observable data from active financial markets each time such data exists. Where a financial instrument contains inputs from multiple levels, it is classified at the lowest level of the hierarchy for which significant input has been considered in measuring fair value.

The following table presents the Plan's financial assets evaluated at fair value as at September 30, 2012, classified according to the fair value hierarchy described above:

[in thousands of dollars]	Level 1	Level 2	Level 3	2012 Total
Canadian				
Cash & cash equivalents		393		393
Bonds and debentures		3,874	5	3,879
Equities	3,473			3,473
Private equity funds		24		24
Pooled fund - real estate			85	85
Foreign				
Cash & cash equivalents		188		188
Equities	5,693			5,693
	9,166	4,479	90	13,735
Future foreign exchange contracts		(15)		(15)
	9,166	4,464	90	13,720

4. Fair Value Measurement (continued)

The following is an analysis of the investments of the Plan using the hierarchy related to the inputs to fair value measurement.

Level 1

The Plan's equity positions are classified as Level 1 when the security is actively traded and a reliable quote is observable.

Level 2

Cash is classified as Level 2. Short-term notes and treasury bills are classified as Level 2. These instruments mature within one year and are stated at cost, which, when combined with accrued interest income, approximates market value. Bonds and other interest bearing securities are classified as Level 2 when they are actively traded. They are classified as Level 2 when they are valued using observable inputs, including interest rate curves, credit spreads and volatilities. Certain of the Plan's equities do not trade frequently and therefore observable prices may not be available. In such cases, fair value is determined using observable market data (e.g., transactions for similar securities of the same issuer) and is classified as Level 2. Future foreign exchange contracts are classified as Level 2.

Level 3

Bonds for which significant unobservable data is required in determining fair value are classified as Level 3. Certain of the Plan's equities determination of fair value requires significant unobservable data, in which case the measurement is classified as Level 3.

The following table presents the Plan's reconciliation of Level 3 fair value measurements as at September 30, 2012:

Opening Balance at October 1, 2011	38
Purchases	88
Transfers In	-
Sales	(39)
Transfers Out	-
Change in Market Value during period	3
Ending Balance at September 30, 2012	90

5. Management of Capital

The capital of the Plan 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 Plan to support the Plan's investment objectives. Investment performance and asset allocation is reviewed by the Investment Management Committee of the Board of Trustees and is reported to the Pension Committee.

6. Interest in Pooled Fund

The assets of the Plan are administered in a Pooled Fund, which includes the assets of other University of Guelph pension plans. The Plan holds units in the Pooled Fund and these units had a fair value, net of future foreign exchange contracts liability, of $13.8 million (2011 - $12.7 million) and a book value of $12.7 million (2011 - $12.6 million) at September 30, 2012. The unrealized gain at September 30, 2012 was $1.1 million (2011 - $0.1 million). As at September 30, 2012 the Plan held 1.4% of the issued and outstanding units of the Pooled Fund (2011 – 1.5%).

(a) The fair values of investments in the Plan's interest in the Pooled Fund as at September 30 are as follows:

[in thousands of dollars]	2012	2011
Canadian		
Cash & cash equivalents	393	181
Bonds and debentures	3,879	3,807
Equities	3,473	2,796
Private equity funds	24	65
Pooled fund - real estate	85	-
	7,854	6,849
Foreign		
Cash & cash equivalents	188	191
Equities	5,693	5,606
	5,881	5,797
Future foreign exchange contracts	(15)	-
Accrued investment income	77	75
Market value of Pooled Fund	13,797	12,721
Market value of Pooled Fund assets	13,812	12,721
Market value of Pooled Fund liabilities	(15)	-
Market value of Pooled Fund	13,797	12,721

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.

6. Interest in Pooled Fund (continued)

(b) Investment Income for the year ended September 30 is summarized as follows:

[in thousands of dollars]	2012	2011
Interest income	160	181
Dividend income		
Canadian	95	78
Foreign	224	198
	480	457

(c) Included in total investments are the Plan's interests in the following individual investments, which have a fair value or book value as at September 30, 2012 equal to or greater than 1% of the fair value or book value of total Pooled Fund.

[in thousands of dollars]	Book	Market
Canadian Bonds & Debentures		
Canada Housing Trust	515	554
Government of Canada	958	1,062
Province of Ontario	271	320
Province of Quebec	172	198
	1,916	2,134
Canadian Equities		
Bank of Nova Scotia	132	172
Royal Bank of Canada	122	148
Toronto Dominion Bank	137	186
	391	506
Total	2,307	2,640

7. Accrued Liabilities

[in thousands of dollars]	2012	2011
Administration fees to the University of Guelph	6	5
Investment management fees	10	14
Custodial and performance management fees	1	1
Professional fees	1	1
Provincial regulatory fees	1	1
	19	22

8. Contributions

[in thousands of dollars]	2012	2011
Employee		
Current Service Contributions	1	7
	1	7

9. Fees and Expenses

[in thousands of dollars]	2012	2011
Investment Fees		
Investment Management Fees	58	62
Custodial and Performance Management Fees	6	6
	64	68
Administrative Expenses and Professional Fees		
University of Guelph Administrative Fee	9	10
Actuarial Fees	13	12
Legal, Accounting and Auditing Fees	-	1
Other Fees*	2	1
	24	24

*includes Provincial regulatory fees

10. Related Party Transactions [in thousands of dollars]

During the year ended September 30, 2012, the University of Guelph charged the Pooled Fund $537 (2011 - $544) for administrative services. Of these charges, $9 (2011 – $10) related to the Non-professional plan.