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

For the Year Ended September 30, 2011

pwc

March 8, 2012

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 Professional Staff of the University of Guelph (the "Plan"), which comprise the statement of net assets available for benefits as at September 30, 2011 and the statement of changes in net assets available for benefits for the year 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, 2011 and the changes in its net assets available for benefits for the year 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 3 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 Professional Staff of the University of Guelph

Statement of Net Assets Available for Benefits

As at September 30, 2011

(in thousands of dollars)

	2011	2010
ASSETS		
Interest in Pooled Fund of		
University of Guelph Pension Plans (Note 2)	606,424	617,161
Employer contributions receivable	693	671
Member contributions receivable	410	375
Accrued interplan transfers	239	2,568
	607,766	620,775
LIABILITIES		
Accounts payable (Note 7)	610	1,149
Net Assets Available for Benefits	607,156	619,626

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

Statement of Changes in Net Assets Available for Benefits

For the year ended September 30, 2011

(in thousands of dollars)

	2011	2010
Increase in Net Assets		
Employer contributions	26,045	14,995
Member contributions	8,878	8,591
Interplan transfers	239	2,816
	35,162	26,402
Investment income	18,879	21,691
Net realized gains	20,152	10,368
Net increase in unrealized gains	-	5,707
	39,031	37,766
Total Increase in Net Assets	74,193	64,168
Decrease in Net Assets		
Net increase in unrealized loss	38,677	-
Pension payments	34,181	31,546
Refunds of contributions	12,784	5,794
Administrative expenses and professional fees (Note 8)	1,021	916
Total Decrease in Net Assets	86,663	38,256
Net Increase (Decrease) for the Year	(12,470)	25,912
Net Assets at Beginning of Year as previously reported	619,626	593,714
Net Assets at End of Year, at Market Value	607,156	619,626

1. Description of Plan

The following description of the Pension Plan for 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 #0324616). 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 Plan covers all regular full-time and certain part-time faculty and professional staff. Effective October 1, 1997 newly hired regular full-time faculty and professional staff must become members of this pension plan. Temporary full-time and certain part-time faculty and professional staff may be eligible to join this plan after 24 continuous months of employment with the University of Guelph.

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 1.5% of the best average earnings up to the average CPP yearly maximum pensionable earnings and 2.0% 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, with interest on the contributions, 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.

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 are not members of the College and Academic Research Group (CARG) are required to contribute 4.8% of their salary up to CPP yearly maximum pensionable earnings and 6.5% of their salary above CPP yearly maximum pensionable earnings to the Plan. CARG members are required to pay 5.8% of their salary up to the CPP yearly maximum pensionable earnings and 7.5% of the salary above CPP yearly maximum pensionable earnings. 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.

2. 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 of $606.4 million (2010 - $617.2 million) and a book value of $608.4 million (2010 - $580.6 million) at September 30, 2011. The unrealized loss at September 30, 2011 was $2.0 million (2010 - $36.6 million gain).

The fair value of the units in the Pooled Fund reflects the fair value of the underlying assets of the Pooled Fund where available, or comparable security prices as appropriate.

3. Significant Accounting Policies

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 plan. Consequently, these financial statements do not purport to show the adequacy of the plan's assets to meet its pension obligations.

Investment Income

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

3. Significant Accounting Policies (continued)

Net Realized Gain (Loss)

The net realized gain (loss) is based on the sale or transfer of underlying investments in the Pooled Fund. Gains and losses on the sale of investments are recorded at the settlement date and are based on the average cost of the securities.

Contributions, Benefit Payments and Refunds

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

Recently Issued Accounting Pronouncements

In December 2010, the Canadian Accounting Standards Board issued a comprehensive set of accounting standards applicable to Pension Plans effective for fiscal years beginning on or after January 1, 2011. The adoption of these standards is not expected to have a significant impact on the financial statements.

4. 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.

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. Market risk is comprised of three types of risk: currency risk, interest rate risk and other price risk.

4. Investment Risk Management (continued)

Currency risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. 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 invests in the units of pooled funds, which in turn invest in a diversified portfolio of assets. While the underlying investments of the Plan are susceptible to both currency and interest rate risk, the risk to the Plan is indirect in nature. Given the Plan is not directly holding any investments denominated in a foreign currency or any interest sensitive securities, the Plan has no direct exposure to currency or interest risk.

Other price risk is risk 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. The investments of the Plan are directly exposed to other price risk. If the unit price of the pooled funds were to increase or decrease by 1%, with all other variables being held constant, the impact on the net assets available for benefits would be approximately $6.1 million.

As noted above, the Plan manages its market risk by investing in pooled funds and by monitoring the performance of the individual pooled funds and compliance of each investment manager with the set investment policies.

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 is indirectly susceptible to credit risk through its investments in pooled funds. The Plan views the risk in this area to be insignificant.

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 that may occur upon retirement or termination of qualifying Plan members. The risk the Plan would be unable to meet such 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.

5. Fair Value Measurement

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the importance of the data used to perform each evaluation. The fair value hierarchy is made up of the following levels:

Level 1 – Unadjusted quoted prices in an active market for identical assets or liabilities.
Level 2 – Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3 – Inputs based on unobservable market data.

5. Fair Value Measurement (continued)

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, 2011, classified according to the fair value hierarchy described above:

[in thousands of dollars]	Level 1	Level 2	Level 3	2011 Total
Interest in Pooled Fund of University of Guelph Pension Plans		606,424		606,424

6. Management of Capital

The capital of the Plan is represented by the net assets available for benefits. The University of Guelph'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.

7. Accounts Payable

[in thousands of dollars]	2011	2010
Refund of contributions plus interest	292	271
Administration fees to the University of Guelph	258	755
Professional fees	36	104
Provincial regulatory fees and Pension Benefit Guarantee Fund	24	19
	610	1,149

8. Administrative Expenses and Professional Fees

[in thousands of dollars]	2011	2010
University of Guelph Administrative Fee	394	446
Professional Fees:		
Actuarial Fees	560	399
Legal, Accounting and Auditing Fees	19	23
Other Fees*	48	48
	1,021	916

* includes Provincial regulatory fees and Pension Benefit Guarantee Fund.

9. Related Party Transactions [in thousands of dollars]

During the year ended September 30, 2011, the University of Guelph charged the Pooled Fund $544 (2010 - $622) for administrative services. Of these charges, $394 (2010 – $446) related to the professional plan.