Fund financial statements of

# BROCK UNIVERSITY PENSION PLAN

Year ended June 30, 2013

Registration Number 327767

**KPMG LLP**
**Chartered Accountants**
Yonge Corporate Centre
4100 Yonge Street
Toronto, ON M2P 2H3

Telephone (905) 685-4811
Fax (905) 682-2008
Internet www.kpmg.ca

# INDEPENDENT AUDITORS' REPORT

To the Pension Committee of Brock University

We have audited the accompanying fund financial statements of Brock University Pension Plan, which comprise the statement of net assets available for benefits as at June 30, 2013, and the statement of changes in net assets available for benefits for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The fund financial statements have been prepared by management based on the financial reporting provisions of Section 76 of Regulation 909 of the Pension Benefits Act (Ontario).

*Management's Responsibility for the Fund Financial Statements*

Management is responsible for the preparation and fair presentation of these fund financial statements in accordance with the financial reporting provisions of Section 76 of Regulation 909 to the Pension Benefits Act (Ontario), and for such internal control as management determines is necessary to enable the preparation of fund financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these fund 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 fund financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the fund financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the fund financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the fund 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 fund financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the fund financial statements present fairly, in all material respects, the net assets available for benefits of Brock University Pension Plan as at June 30, 2013, 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 of the Pension Benefits Act (Ontario).

*Basis of Accounting and Restriction on Use*

Without modifying our opinion, we draw attention to note 1 to the fund financial statements, which describes the basis of accounting. The fund financial statements are prepared to assist the Pension Committee of the Brock University Pension Plan to comply with the requirements of the Financial Services Commission of Ontario under Section 76 of Regulation 909 of the Pension Benefits Act (Ontario). As a result, the fund financial statements may not be suitable for another purpose.

Our report is intended solely for the Board of Trustees of Brock University and the Financial Services Commission of Ontario and should not be used by parties other than the Board of Trustees of Brock University and the Financial Services Commission of Ontario.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada
December 12, 2013

# BROCK UNIVERSITY PENSION PLAN

Statement of Net Assets Available for Benefits

June 30, 2013, with comparative figures for 2012

| | 2013 | 2012 |
|---|---|---|
| **Assets** | | |
| Investments (note 2) | $ 339,427,548 | $ 299,709,645 |
| Contributions receivable: | | |
| Employer | 1,394,752 | 1,354,307 |
| Employees | 569,145 | 547,614 |
| | 341,391,445 | 301,611,566 |
| **Liabilities** | | |
| Accounts payable and accrued liabilities (note 3) | 481,574 | 393,919 |
| Derivative contracts (note 4) | - | 1,073,137 |
| | 481,574 | 1,467,056 |
| Net assets available for benefits | $ 340,909,871 | $ 300,144,510 |

See accompanying notes to the fund financial statements.

On behalf of the Board of Trustees:

Dr. Jack Lightstone
President and Vice-Chancellor

Joseph Robertson
Chair, Board of Trustees

# BROCK UNIVERSITY PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

Year ended June 30, 2013, with comparative figures for 2012

| | 2013 | 2012 |
|---|---|---|
| Increase in net assets available for benefits: | | |
| Investment income (note 5) | $ 8,135,352 | $ 14,734,167 |
| Change in net unrealized gains | 35,027,396 | 5,178,570 |
| Change in derivative contracts | - | 479,729 |
| Contributions (note 6): | | |
| Employer | 16,465,809 | 16,253,143 |
| Employee | 6,654,802 | 6,379,742 |
| Transfers from other pension plans | 233,466 | 73,876 |
| | 66,516,825 | 43,099,227 |
| Decrease in net assets available for benefits: | | |
| Net realized loss on sale of investments | 10,965,886 | 11,742,908 |
| Benefit payments (note 7) | 12,268,435 | 10,360,998 |
| Administrative expenses and professional fees (note 8) | 2,517,143 | 2,808,278 |
| | 25,751,464 | 24,912,184 |
| Increase in net assets available for benefits | 40,765,361 | 18,187,043 |
| Net assets available for benefits, beginning of year | 300,144,510 | 281,957,467 |
| Net assets available for benefits, end of year | $ 340,909,871 | $ 300,144,510 |

See accompanying notes to the fund financial statements.

The Brock University Pension Plan (the "Plan") is a registered pension plan in the Province of Ontario under registration number 327767. The Plan is a hybrid defined benefit money purchase pension plan, which contains both a defined contribution component and a defined benefit component. The defined contribution component of the plan is funded by Brock University (the "University") and member contributions and provides a benefit to members based on their accumulated account. The defined benefit component of the Plan is funded by University contributions and provides for a guaranteed minimum benefit. The Plan provides pension benefits to substantially all permanent employees of the University.

## 1. Significant accounting policies:

(a) Basis of presentation:

As permitted under Section 76 of Regulation 909 to the Pension Benefits Act (Ontario), the Plan has prepared these fund financial statements in accordance with Canadian accounting standards for pension plans, excluding pension obligations and any resulting surplus or deficit.

In selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, Canadian accounting standards for pension plans require the Plan 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 - Accounting or Canadian accounting standards for private enterprises in Part II of the CICA Handbook - Accounting. The Plan has chosen to comply on a consistent basis with IFRS.

These fund financial statements have been prepared to assist the Pension Committee in meeting the requirements of the Financial Services Commission of Ontario under Section 76 of Regulation 909 of the Pension Benefits Act (Ontario). As a result, these fund financial statements may not be suitable for another purpose.

These fund financial statements of the Plan do not purport to show the adequacy of the Plan's assets to meet its pension obligation. Such an assessment requires additional information, such as the Plan's actuarial reports.

**1. Significant accounting policies (continued):**

(b) Basis of measurement:

The fund financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value through the statement of changes in net assets available for benefits.

(c) Functional and presentation currency:

These fund financial statements are presented in Canadian dollars, which is the Plan's functional currency.

(d) Financial assets and financial liabilities:

(i) Non-derivative financial assets:

Financial assets are recognized initially on the trade date, which is the date that the Plan becomes a party to the contractual provisions of the instrument. Upon initial recognition, attributable transaction costs are recognized in the statement of changes in net assets available for benefits as incurred.

The Plan measures all of its investments at fair value through the statement of changes in net assets available for benefits.

All other non-derivative financial assets including accrued investment income, contributions receivable, and due from investment dealers are measured at amortized cost.

The Plan derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Plan neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and consideration received is recognized in the statement of changes in net assets available for benefits as a net realized gain or loss on sale of investments.

## 1. Significant accounting policies (continued):

(d) Financial assets and financial liabilities (continued):

(ii) Non-derivative financial liabilities:

All financial liabilities are recognized on the trade date at which the Plan becomes a party to the contractual provisions of the instrument.

The Plan derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

The Plan considers its accounts payable and accrued liabilities to be a non-derivative financial liability.

(iii) Derivative financial instruments:

Derivative financial instruments are recognized initially at fair value and attributable transaction costs are recognized in the statement of changes in net assets available for benefits as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and all changes are recognized immediately in the statement of changes in net assets available for benefits.

Financial assets and liabilities are offset and the net amount presented in the statement of net assets available for benefits, when, and only when, the Plan has a legal right to offset the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(e) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing third parties in an arm's length transaction on the measurement date.

In determining fair value, the Plan follows the guidance in IFRS 13, Fair Value Measurement ("IFRS 13"), in Part I of the CICA Handbook. As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The Plan uses closing market price as a practical expedient for fair value measurement.

**1. Significant accounting policies (continued):**

(e) Fair value measurement (continued):

When available, the Plan measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Plan establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in the statement of changes in net assets available for benefits on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

All changes in fair value, other than investment income and expense, are recognized in the statement of changes in net assets available for benefits as part of the change in net unrealized gains.

The investments are stated at fair value.

Fair values of investments are determined as follows:

Bonds, debentures and equities are valued at year-end quoted market prices where available. Where quoted prices are not available, estimated fair values are calculated using comparable securities.

Pooled fund investments are valued at the unit values supplied by the pooled fund administrator, which represent the Plan's proportionate share of underlying net assets at fair values determined using closing market prices.

**1. Significant accounting policies (continued):**

(f) Net realized gain (loss) on sale of investments:

The net realized gain (loss) on sale of investments is the difference between proceeds received and the average cost of investments sold.

(g) Investment income:

Investment income, which is recorded on the accrual basis, includes interest income, dividends and pooled fund distributions.

(h) Foreign currency translation:

The fair values of foreign currency denominated investments included in the statement of net assets available for benefits are translated into Canadian dollars at year end exchange rate. Gains and losses arising from translations are included in the change in net unrealized gains.

Foreign currency denominated transactions are translated into Canadian dollars at the rate of exchange on the date of the related transaction. Cost of investments, as disclosed in note 2, are translated into Canadian dollars at the rate of exchange on the date of purchase.

(i) Forward foreign currency contracts:

The Plan enters into forward foreign currency contracts (the “contracts”) to hedge approximately one half of the currency exposure of foreign investments. The fair value of the contracts is based on amounts quoted by the Plan’s investment manager to realize favourable contracts or settle unfavourable contracts, taking into account current foreign exchange rates. The net change in the unrealized gain on the contracts is included in the current period change in fair value of forward foreign currency contracts. When the contracts are closed out the net gain or loss is reflected in the net realized gain or loss on sale of investments.

(j) Income taxes:

The Plan is not subject to income taxes since it is a Registered Pension Trust as defined by the Income Tax Act.

**1. Significant accounting policies (continued):**

(k) Use of estimates:

The preparation of fund financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the statement of net assets available for benefits and the reported amounts of changes in net assets available for benefits during the year. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

## 2. Investments:

The following is a summary of investments, including all individual investments with a cost or fair value in excess of 1% of the cost or market value of the total Plan, as required by the Ontario Pension Benefits Act:

| | 2013 Cost | 2013 Market value | 2012 Cost | 2012 Market value |
|---|---|---|---|---|
| Cash | $ 2 | $ 2 | $ 12,626 | $ 12,626 |
| Pooled funds: | | | | |
| Alliance Bernstein Core Plus Bond Fund | 119,017,905 | 122,234,955 | 107,583,568 | 113,652,562 |
| Walter Scott and Partners Canadian Institutional Trust Global Equity Fund | 67,725,011 | 82,682,825 | 46,848,917 | 49,143,417 |
| Integra Acadian Global Equity Fund | - | - | 50,874,498 | 41,419,641 |
| Aberdeen Canada Global Equity Fund | 70,062,622 | 78,527,209 | 50,726,835 | 50,189,717 |
| Mawer Canadian Global Equity Fund | 35,231,554 | 41,037,276 | 34,455,610 | 34,393,973 |
| McLean Budden Fixed Income Fund | - | - | 5,510,812 | 5,595,989 |
| McLean Budden Canadian Pooled Money Market Fund | - | - | 4,254,233 | 4,254,233 |
| Mawer Canadian Pooled Fixed Fund | 5,952,289 | 5,856,315 | - | - |
| Mawer Money Market Bond | 5,952,855 | 5,952,974 | - | - |
| Other | 3,135,992 | 3,135,992 | 1,047,487 | 1,047,487 |
| | $ 307,078,230 | $ 339,427,548 | $ 301,314,586 | $ 299,709,645 |

Other investments include short-term investment funds and pending investments held by RBC.

## 3. Accounts payable and accrued liabilities:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Portfolio administration fees | $ | 372,325 | $ | 357,201 |
| Actuarial and other professional fees | | 76,269 | | 6,443 |
| Custodial fees | | 14,630 | | 20,922 |
| Audit fees | | 18,350 | | 9,353 |
| | $ | 481,574 | $ | 393,919 |

## 4. Derivative contracts:

The Plan uses derivative financial instruments to reduce risks associated with its investments and is committed under various forward foreign currency contracts to both purchase and sell various foreign currencies with a notional amount totaling $nil (2012 - $54,100,000). The fair value of these derivative contracts of $nil (2012 – loss of $1,073,137).

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. These are a common measure of volume of outstanding transactions but do not represent credit or market risk.

The derivative contracts matured on April 22, 2013.

## 5. Investment income:

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Pooled funds: | | | | |
| Canadian bonds and debentures | $ | 3,093,548 | $ | 10,363,185 |
| Canadian equity | | 775,944 | | 1,065,237 |
| Global | | 4,231,533 | | 3,244,451 |
| Money market | | 34,327 | | 60,242 |
| Miscellaneous income | | - | | 1,052 |
| | $ | 8,135,352 | $ | 14,734,167 |

## 6. Contributions:

Contributions received by the Plan were as follows:

| 2013 | Regular | Voluntary | Special | Total |
|---|---|---|---|---|
| Employer | $ 10,517,552 | $ - | $ 5,948,257 | $ 16,465,809 |
| Employee | 6,594,329 | 60,473 | - | 6,654,802 |
| | $ 17,111,881 | $ 60,473 | $ 5,948,257 | $ 23,120,611 |

| 2012 | Regular | Voluntary | Special | Total |
|---|---|---|---|---|
| Employer | $ 10,078,780 | $ - | $ 6,174,363 | $ 16,253,143 |
| Employee | 6,331,646 | 48,096 | - | 6,379,742 |
| | $ 16,410,426 | $ 48,096 | $ 6,174,363 | $ 22,632,885 |

## 7. Benefit payments:

| | 2013 | 2012 |
|---|---|---|
| Pension benefits | $ 6,892,029 | $ 6,185,974 |
| Cash refunds | 425,405 | 427,506 |
| Transfers to other pension funds | 3,106,936 | 3,461,735 |
| Death benefits | 1,844,065 | 285,783 |
| | $ 12,268,435 | $ 10,360,998 |

## 8. Administrative expenses and professional fees:

| | 2013 | 2012 |
|---|---|---|
| Portfolio administration fees | $ 1,822,793 | $ 1,863,639 |
| Actuarial and other professional fees | 591,457 | 811,982 |
| Custodial fees | 94,021 | 122,499 |
| Audit fees | 8,872 | 10,158 |
| | $ 2,517,143 | $ 2,808,278 |

**9. Related party transactions:**

The University provides certain administrative services to the Plan. The cost to the Plan for these services in the year ended June 30, 2013 were $134,416 (2012 - $139,630), being the exchange amount agreed to by the parties, and is included in administrative expenses and professional fees in the statement of changes in net assets available for benefits. At June 30, 2013 accounts payable and accrued liabilities included $31,243 (2012 - $nil) owing to the University relating to such services.

**10. Financial instruments:**

The objectives of the Plan are to accumulate funds for the purpose of providing lifetime income in retirement for Members of the Plan. The objectives of the Administrator are to establish suitable investment vehicles that meet the risk tolerances of the Members and to provide information and education to enable the Members to understand the nature of the investments.

The investment vehicles provided in the Plan are pooled fund investments managed by independent investment firms. The Administrator manages the following risks by allocating the funds among the pooled funds available and in doing so; delegates the risk management within the individual pooled funds to it investment advisors.

(a) Fair values:

The fair values of investments are disclosed in note 2 and derivative contracts are disclosed in note 4. The fair value of other financial assets and liabilities, being contributions receivable and accounts payable and accrued liabilities, approximates their carrying value due to the short-term nature of these 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 and liabilities;
- Level 2 inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly; and
- Level 3 inputs for assets and liabilities that are not based on observable market data.

All investments are categorized as Level 2 at June 30, 2013 (2012 – all investments are categorized as level 2).

**10. Financial instruments (continued):**

(b) Associated risks:

(i) Market price risk:

Market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer 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 result in a change in net assets available for benefits. Market price risk is managed by the Plan 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 June 30, 2013, had the equity prices of all equity benchmarks increased or decreased by 1% and assuming there is a perfect positive correlation between the Plan's equities and the benchmarks, with all other variables held constant, the value of the Plan's investments would have increased or decreased, by approximately $3,394,275 or 1.0% (2012 - $3,001,455 or 1%) of net assets available for benefits.

(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 various foreign currencies. Consequently, the Plan is exposed to risks that the exchange rate of the foreign currency may change in a manner that has an adverse effect 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 Plan, in accordance with the currency risk management program.

(iii) 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 Plan, which contains asset mix guidelines which help to ensure the Plan is able to liquidate investments to meet its pension benefits or other obligations.

The accounts payable and accrued liabilities are all due within 90 days or less.

## 10. Financial instruments (continued):

(b) Associated risks (continued):

(iv) Interest rate risk:

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. The value of the Plan's assets is affected by short-term changes in interest rates. Interest rate changes directly impact the value of any fixed securities in the pooled funds.

(v) Credit risk:

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Plan. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for non-exchange trade financial instruments is not backed by an exchange clearing house.

## 11. Capital disclosures:

The main objective of the defined benefit component of the Plan is to ensure the security of the promised pension benefits under the Plan. The primary investment objective of the defined contribution component of the Plan is to permit members to accumulate assets within the Plan in order to provide an appropriate level of retirement income, considering contribution rates under the Plan and the member's individual investment objectives and risk tolerances. 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 Pension Committee. The Plan manages net assets available for benefits by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employer contributions) in accordance with the approved SIPP.

Although there are no regulatory requirements relating to the level of net assets available for benefits, the funding to be maintained by the defined benefit component of the Plan is determined through triennial actuarial valuations. The Plan is required to file fund financial statements with the Financial Services Commission of Ontario.