Financial Statements of

# UNIVERSITY OF WINNIPEG PENSION PLAN

Year ended December 31, 2006

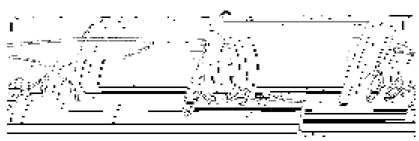
**THE UNIVERSITY OF WINNIPEG**
**PENSION PLAN**

**FINANCIAL STATEMENTS**

**For the Year Ended December 31, 2006**

<u>PAGE</u>

**Actuary's Opinion**



AUDITOR GENERAL
[illegible]

# AUDITORS' REPORT

To the Legislative Assembly of Manitoba
To the Board of Regents of the University of Winnipeg

We have [illegible] University of Winnipeg Pension Plan as at December 31, 2006 and the statement [illegible] audited. These financial statements are the responsibility of the Plan's management. Our [illegible] express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with [illegible] auditing standards. Those standards require [illegible] an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, [illegible] and disclosures in the financial statements [illegible] and significant estimates made [illegible] as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly [illegible] benefits of the [illegible] 2006 and the changes in its net assets [illegible] for benefits for the year then ended in [illegible] with Canadian generally accepted accounting principles.

Office of the Auditor General

Office of the Auditor General

Winnipeg, Manitoba
March 23, 2007

**STATEMENT I**

# UNIVERSITY OF WINNIPEG PENSION PLAN

Statement of Net Assets Available for Benefits

December 31, 2006, with comparative figures for 2005

| | 2006 | 2005 |
|---|---|---|
| **Assets** | | |
| Cash | $ 519,575 | $ 744,625 |
| Contributions receivable: | | |
| Members | 129,752 | 125,300 |
| University | 294,105 | 149,414 |
| Investment income receivable | 49,711 | 19,537 |
| Investments (schedule A) | 138,984,023 | 126,191,508 |
| | $ 139,977,166 | $ 127,230,384 |
| **Liabilities** | | |
| Accounts payable | $ 179,862 | $ 175,283 |
| **Net Assets Available for Benefits** | $ 139,797,304 | $ 127,055,101 |

Continuity of operations [note 2(a)(ii)]

Subsequent event [note 5(a)]

Contingency (note 9)

See accompanying notes to financial statements.

On behalf of the Board of Regents:

*(Original signed by Terry Hidichuk)*
____________________ Director

*(Original signed by Lloyd Axworthy)*
____________________ President and Vice-Chancellor

# UNIVERSITY OF WINNIPEG PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2006, with comparative figures for 2005
(see Schedule B)

| | 2006 | 2005 |
|---|---|---|
| Increase in assets: | | |
| Contributions (note 6): | | |
| Members | $ 1,901,842 | $ 1,808,568 |
| University | 2,688,441 | 2,677,800 |
| Investment income | 7,777,747 | 7,121,867 |
| Current period change in fair value of investments | 5,237,215 | 5,399,731 |
| Net realized gain on sale of investments | 3,541,010 | 1,847,591 |
| | 21,146,255 | 18,855,557 |
| Decrease in assets: | | |
| Benefits paid to retired members | 5,003,423 | 4,729,736 |
| Refunds and transfers | 2,773,518 | 2,258,211 |
| Administrative expenses: | | |
| Investment managers' fees | 441,174 | 423,833 |
| Actuarial fees | 17,089 | 27,259 |
| Administrator's fees | 25,149 | 28,909 |
| Custodial fees | 45,087 | 45,076 |
| Other expenses | 98,612 | 108,277 |
| | 627,111 | 633,354 |
| | 8,404,052 | 7,621,301 |
| Net increase in assets available for benefits | 12,742,203 | 11,234,256 |
| Net assets available for benefits, beginning of year | 127,055,101 | 115,820,845 |
| Net assets available for benefits, end of year | $ 139,797,304 | $ 127,055,101 |

See accompanying notes to financial statements.

# UNIVERSITY OF WINNIPEG PENSION PLAN
Summary of Investments

Year ended December 31, 2006, with comparative figures for 2005

| | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | Fair value | Cost | % Fair value | Fair value | Cost | % Fair value |
| Defined benefit: | | | | | | |
| Fixed income | $ 52,189,209 | $ 51,016,328 | 42.60 | $ 50,444,147 | $ 48,713,255 | 44.81 |
| Canadian equities | 37,151,938 | 24,219,756 | 30.32 | 38,027,875 | 25,853,562 | 33.78 |
| U.S. equities | 13,859,484 | 9,654,862 | 11.31 | 9,572,611 | 7,249,637 | 8.50 |
| International equities | | | | | | |

**SCHEDULE B**

# UNIVERSITY OF WINNIPEG PENSION PLAN

Changes in Net Assets Available for Benefits by Segment

Year ended December 31, 2006

| | Defined Benefit Segment | Defined Contribution Segment | Total |
|---|---|---|---|
| Increase in assets: | | | |
| Contributions | | | |
| Members | $ 970,146 | $ 931,696 | $ 1,901,842 |
| University | 1,750,054 | 938,387 | 2,688,441 |
| Investment income | 6,956,505 | 821,242 | 7,777,747 |
| Current period change in fair value of investments | 4,343,566 | 893,649 | 5,237,215 |
| Net realized gain on sale of investments | 3,385,321 | 155,689 | 3,541,010 |
| | 17,405,592 | 3,740,663 | 21,146,255 |

Decrease in assets:

## 1. Description of the pension plan:

The following description of the University of Winnipeg Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the Plan Agreement.

The Plan was established as a contributory defined benefit pension plan on September 1, 1972, at which time the funds were invested with an insurance company. In 1977, the funds were transferred to a trust fund and professional investment counselors were retained. The Plan is registered under the Income Tax Act and the Manitoba Pension Benefits Act (Registration #309914). A pension committee oversees the administration of the Plan, monitors the investments with the assistance and advice of the investment committee, and makes policy recommendations to the Board of Regents of the University of Winnipeg (University).

The Plan covers all eligible employees of the University, except those who are members of the United Church of Canada Pension Plan. Permanent academic employees join the Plan on their date of employment. Permanent non-academic employees may elect to join the Plan on their date of employment and must join by the first anniversary date of their employment. Under the Plan, contributions are made by plan members and by the University (note 6). A member who receives benefits from the long-term disability plan of the University is not required to contribute to the Plan.

The annual pension payable to a defined benefit member on retirement is based on the member's final five year average earnings and years of credited service.

Plan members at December 31, 2000, were given the option to remain in the defined benefit segment of the Plan or convert their accrued benefits to the newly formed defined contribution segment of the Plan. Subsequently, all new employees hired are required to become members of the defined contribution segment of the Plan.

In 2000 and 2001, the Plan was amended to distribute surplus to Plan members and to provide a contribution holiday to the University arising from its share of the surplus. There was an initial surplus distribution and subsequently, certain amendments were made that changed the implementation of the 2000 and 2001 amendments.

(b) Investments:

Investments are stated at fair value. In determining fair values, adjustments have not been made for transaction costs as they are not considered to be 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 the current period change in fair value of investments.

Fair values of investments are determined as follows:

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

Short-term notes, treasury bills and term deposits maturing within a year are stated at cost, which together with accrued interest income approximates fair value given the short-term nature of these investments.

(c) 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.

(d) Investment income:

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

(e) 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 rates of exchange. Gains and losses arising from translations are included in the change in fair value of investments.

Foreign currency denominated transactions, as well as cost amounts included in schedule B to the financial statements are translated into Canadian dollars at the rates of exchange in effect on the dates of the related transactions.

(f) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. Estimates were also used in Note 9 in determining the contingent lump sum and related interest amounts.

## 3. Risk management:

Defined benefit:

Fair values of investments and therefore the Plan's net assets available for benefits are exposed in the future to interest rate, inflation, market valuation, credit and currency risks. The definition of these risks follows:

(a) Interest rate risk refers to the impact of interest rate changes on the Plan's financial position, investment income and cash flows.

(b) Inflation risk is the impact of rising prices on the Plan's assets values, changes in actuarial assumptions, and the Plan's ability to meet its CPI related changes to paid benefits.

(c) Market valuation risk is the adverse effects that may be caused by fluctuation in the market value of Plan assets resulting in a change in their value.

(d) Credit risk is the risk of loss from the failure of a counter-party to discharge their contractual obligations.

(e) Currency risk relates to the possibility that foreign currency-denominated investments will change in value due to future fluctuations in foreign exchange rates relative to the Canadian dollar value of the Plan's pension obligations.

The Board of Regents places limits on these risks by establishing, through the advice of the Pension and Investment Committees, an approved investment policy called "Statement of Investment Policies and Guidelines" that provides for risk mitigation. The investment policy is provided to the external investment managers and provides them with policy guidelines for investing the Plan assets, including asset allocation policy and benchmarks, type of investments, quality and credit ratings for securities.

## 4. Summary of investments:

The summary of investments (schedule A) represents the total investments of the defined benefit segment and defined contribution segment of the Plan held by the custodians. In respect to the defined benefit segment of the Plan, an external investment manager invests the Plan assets pursuant to the approved investment policy. The fixed income component is comprised of bonds and debentures ($3,608,748) with maturity dates varying from 2007 to 2040 and interest rates varying from 4.51% to 8.24% and pooled fixed income funds ($48,580,461). The members of the defined contribution plan select their own investments and have the right to allocate their pension assets to investment funds that are offered by the custodian for the defined contribution segment of the Plan.

**5. Obligation for pension benefits:**

(a) Defined benefit obligation:

The actuarial present value of accrued pension benefits under the defined benefit segment was determined using the projected unit credit actuarial method and using assumptions recommended by the actuary and approved by the Board of Regents of the University. An actuarial valuation of the Plan was prepared, effective December 31, 2004 by Eckler Ltd., a firm of consulting actuaries, and the results of this valuation were extrapolated by them to December 31, 2006 as follows:

| | 2006 | 2005 |
|---|---|---|
| | (In thousands) | |
| Actuarial present value of accrued pension benefits, beginning of year | $ 110,167 | $ 106,801 |
| Interest accrued on benefits | 6,765 | 6,572 |
| Pension increase | 717 | 274 |
| Benefits accrued | 2,383 | 2,423 |
| Benefits paid, refunds and transfers | (6,930) | (6,568) |
| Actuarial loss | 789 | 665 |
| Actuarial present value of accrued pension benefits, end of year | $ 113,891 | $ 110,167 |

The pension increase in respect of 2006 of 1.65% will be effective July 1, 2007 and is equal to the increase in the Consumer Price Index (CPI) in 2006. The Plan provides that the increase in respect of a year will be equal to the excess of the rate of return in that year, based on smoothed asset values, over 6%, subject to a maximum of the increase in the CPI in that year. For 2006, the excess of the rate of return based on smoothed asset values over 6% was 5.75%

**5. Obligation for pension benefits (continued):**

The value of net assets available for benefits at December 31, was

| | | 2006 | | 2005 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Market value of net assets | $ | 123,236 | $ | 113,374 |

The assumptions used in determining the actuarial value of accrued benefits in the valuation at December 31, 2004 and the extrapolation to December 31, 2006 were developed by reference to expected long-term market conditions. Significant actuarial assumptions used in the valuation were:

| | | 2006 | 2005 |
|---|---|---|---|
| Rate of return on investments (discount rate) | - pre-retirement | 6.5% | 6.5% |
| | - post-retirement | 6.0% | 6.0% |
| Rate of salary increase | - current year | 3.0% | 2.5% |
| | - thereafter | 4.0% | 4.0% |

In January, 2007 the actuary reviewed the assumptions for the purpose of providing estimates of the Plan's financial position in support of discussions taking place between the University and Plan stakeholders. As a consequence of this review, the actuary has indicated that the assumed rates of return on investments will likely be reduced at the next full funding valuation to 6.0% pre-retirement and 5.75% post-retirement. The effect of implementing these assumption changes is estimated to be an increase in the actuarial value of accrued benefits of $2.7 million for a total actuarial present value of accrued pension benefits of $116.6 million as at December 31, 2006.

(b) Defined contribution obligation:

The obligation for pension benefits under the defined contribution segment will always be equal to the net assets in each Member's account. Therefore, no surplus or deficiency arises from fluctuations in the investment market.

The following summarized the changes in the defined contribution segment of the Plan:

| | | 2006 | | 2005 |
|---|---|---|---|---|
| | | (In thousands) | | |
| Balance, beginning of year | $ | 13,681 | $ | 11,049 |
| Contributions | | 1,870 | | 1,641 |
| Refunds and transfers | | (846) | | (420) |
| Net investment return | | 1,856 | | 1,411 |
| Balance, end of year | $ | 16,561 | $ | 13,681 |

## 6. Funding policy:

The University's regular contribution is 7.0% of pensionable salary to the defined benefit segment and 6.0% to the defined contribution segment less an adjustment, in each case, for the Canada Pension Plan. For Members receiving long-term disability benefits, the University pays the employee contributions as well as its own contributions. In addition, the University is responsible for any additional contributions required under the *Pension Benefits Act.*

## 7. Related party transactions:

The University charges benefit administration costs to the Plan. The charge for 2006 was $55,377 (2005 - $54,185) and has been included in other expenses. This transaction is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Other administration services including accounting and secretarial services are provided by the University at no charge to the Plan.

## 8. Agreement between the University and Plan stakeholders:

In April 2003, the University and Plan Stakeholders of the defined benefit segment of the Plan agreed to amend the provisions of the Plan Amendment 2001/1 that was approved by the Board of Regents in December 2000. All of the provisions of the agreement have been implemented with the exception of the establishment of a Board of Trustees to oversee the administration of the Plan. Discussions are ongoing between the University and the Plan Stakeholders with respect to transition of the Plan to a Board of Trustees.

## 9. Contingency:

On December 8, 2006, the Superintendent of Pensions issued an Order requiring the University to develop and implement a written governance framework, and pay a lump sum amount estimated to be $6.2 million, plus interest of about $2 million, into the Plan, for the benefit of defined benefit members, in relation to the undistributed portion of their proportionate share of the Plan surplus, as determined by the Plan Actuary in 1999.

The University has appealed the Superintendent's decision to the Pension Commission, and is seeking that the Order be quashed. The appeal proceedings before the Pension Commission have commenced, but the outcome will not be determined for some time. The decision of the Commission may be further appealed to the Manitoba Court of Appeal, and the University has taken the position before the Commission, that the Order should be stayed until all legal proceedings are concluded. No payment, pursuant to the Order has been made, and no provision has been made for such future payment in the financial statements of the University or the Plan.

## 10. Fair value of other financial assets and financial liabilities:

The carrying values of all other financial assets and liabilities approximate their fair market values due to the short term nature of these amounts.