Financial Statements of

SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

(FORMERLY PENSION PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK)

Year ended June 30, 2014

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees for the Shared Risk Plan for Academic Employees of the University of New Brunswick (formerly Pension Plan for Academic Employees of the University of New Brunswick) (the AESRP)

We have audited the accompanying financial statements of the AESRP, which comprise the statement of financial position as at June 30, 2014, the statement of changes in net assets available for benefits and changes in pension obligations for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Board of Trustees' Responsibility for the Financial Statements

The Board of Trustees is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as the Board of Trustees determines is necessary to enable the preparation of 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 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 our 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, we consider 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the AESRP as at June 30, 2014, and its changes in net assets available for benefits and changes in pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Comparative information

Without modifying our opinion, we draw attention to Note 5 to the financial statements which describes the conversion to a shared risk pension plan. The 2013 financial information is not directly comparable because of the conversion to a shared risk pension plan and the method used in measuring the pension obligations.

Chartered Professional Accountants
_______________, 2015
Fredericton, Canada

SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

(FORMERLY PENSION PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK)
Financial Statements

Year ended June 30, 2014

Financial Statements

SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

(FORMERLY PENSION PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK)
Statement of Financial Position
(in thousands of dollars)

June 30, 2014, with comparative information for 2013

	2014	2013
Assets		
Investments (note 3)	$ 272,263	$ 232,182
Accounts receivable	77	98
Contributions receivable	384	362
	272,724	232,642
Liabilities		
Benefits payable	107	–
Accounts payable and accrued liabilities	409	221
Net assets available for benefits	272,208	232,421
Pension obligations (note 5)	309,656	317,666
Stabilization account not reflected in actuarial value of net assets (note 5)	–	448
Deficit	$ (37,448)	$ (85,693)

See accompanying notes to financial statements.

Approved on behalf of the Pension Board of Trustees:

Dr. N. Betts, CPA, FCA

Mr. L. Guitard, CPA, CA

SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

(FORMERLY PENSION PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK)

Statement of Changes in Net Assets Available for Benefits

(in thousands of dollars)

Year ended June 30, 2014, with comparative information for the six months ended June 30, 2013

	2014	2013
Increase in net assets:		
Investment income	$ 9,974	$ 3,869
Change in fair value:		
Net realized gain (loss) on sale of investments	(174)	564
Change in net unrealized gain on investments	27,485	4,235
Contributions:		
Members	7,681	4,338
University	7,681	4,338
	52,647	17,344
Decrease in net assets:		
Pension benefits	9,774	4,473
Administrative expenses (note 7)	1,590	623
Lump sum settlements	1,496	76
	12,860	5,172
Increase in net assets	39,787	12,172
Net assets available for benefits, beginning of period	232,421	220,249
Net assets available for benefits, end of period	$ 272,208	$ 232,421

See accompanying notes to financial statements.

SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

(FORMERLY PENSION PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK)

Statement of Changes in Pension Obligations

(in thousands of dollars)

Year ended June 30, 2014, with comparative information for the six months ended June 30, 2013

		2014		2013
Actuarial present value of pension obligations, beginning of period	$	317,666	$	297,252
Reduction of plan obligation on conversion to a shared risk plan as at July 1, 2013 and corresponding change in actuarial basis (note 5)		(33,614)		–
Interest		12,872		8,546
Normal actuarial cost		10,017		4,530
Benefits paid		(11,270)		(4,549)
Experience losses		(780)		–
Impact of change in actuarial assumptions		9,932		11,887
Application of funding policy		4,833		–
Actuarial present value of pension obligations, end of period	$	309,656	$	317,666

See accompanying notes to financial statements.

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1. Description of Plan:

The following description of the Shared Risk Plan for Academic Employees of the University of New Brunswick (the AESRP, or, the Plan) is a summary of the main features of the plan only. For more complete information, reference should be made to the Plan Text.

By Agreement dated March 31, 2014 (the Shared Risk Agreement) the University of New Brunswick (the University) and the Association of University of New Brunswick Teachers (the AUNBT) agreed to convert the Pension Plan for Academic Employees of the University of New Brunswick (the “AEPP”) into a Shared Risk Pension Plan (SRPP) in accordance with the Shared Risk Agreement and applicable legislation. The effective date of the conversion is July 1, 2013 (the Conversion Date).

SRPPs are legislated under the New Brunswick Pension Benefits Act which contains a number of requirements that must be met in order to qualify for registration by the New Brunswick Superintendent of Pensions. SRPPs are also subject to the Federal Income Tax Act. SRPPs are governed by a Board of Trustees. The objectives of SRPPs is to provide secure, but not guaranteed pension benefits to members of the plans and predictability and stability in contributions rates to both employers and employees.

The University shares the significant risk of the Plan on an equitable basis with the Plan members. Funding contributions, including any contribution adjustments, are shared equally (50/50 basis) between the University and the Plan members. There is a joint governance structure in place whereby the University and the Plan members share control over decisions relating to the administration of the Plan and the level of benefits and contributions. Each party appoints an equal number of trustees.

The University has no financial obligation or responsibility except to make contributions at the prevailing employer contribution rate as dictated by the funding policy.

The characteristics of the AESRP as described in the agreement between the University and the AUNBT to convert the former AEPP to the AESRP are as follows:

i. Purpose of AESRP is to provide secure (but not guaranteed) pension benefits
ii. Risk focused management approach to provide high degree of certainty that base benefits can be paid in the majority of future scenarios
iii. Future cost of living adjustments (COLAs) and best average salary formula based benefits are replaced by contingent indexing
iv. Plan is to provide a reasonable expectation, but no guarantee that some COLA can be granted
v. Plan designed to result in low probability of base benefits ever being reduced
vi. Funding Policy will include specific steps to recover from unacceptable funding levels that takes priority over reduction of base benefits

1. Description of Plan (continued):

RBC Investor and Treasury Services acts as Custodian of the Plan assets.

(a) General:

The AEPP

The AEPP was established under a trust agreement between the University and the AUNBT. AEPP provided pension and ancillary benefits to eligible academic employees of the University for service after January 1, 1993. The AEPP provided pensions based on length of service and final average earnings. The AEPP was registered under the Pension Benefits Act of the Province of New Brunswick.

The AESRP

The University and the AUNBT signed an amendment to the AEPP trust agreement to establish the AESRP. The Plan provides benefits to eligible academic employees of the University for service after July 1, 2013 while a member of the Plan and for service after January 1, 1993 while a member of the AEPP. The Plan is registered under the Pension Benefits Act of the Province of New Brunswick.

(b) Funding policy (note 6):

The Plan is financed by contributions from both Plan members and the University. Members are required to contribute at the initial contribution rates specified in the Plan expressed as a percentage of pensionable salary up to the maximum pensionable salary under the Income Tax Act. The initial contribution rates specified in the Plan may be adjusted by the Board of Trustees from time to time, subject to the triggering mechanism and limitations imposed by the Plan's Funding Policy. Initial member contribution rates have been set at a blended (above and below YMPE) rate of 11.5% of pensionable earnings to be matched by the University. Rates can fluctuate in accordance with the Funding Policy to a maximum of 2.25% above or below the initial contribution rates (note 6). In the event of a windup of the Plan within five year of the conversion date the Plan would be wound up under the Provisions of the former AEPP as a fixed contribution plan.

1. Description of Plan (continued):

(c) Service pensions:

Members who retired prior to the Conversion Date, surviving spouses or beneficiaries in receipt of a pension prior to the Conversion Date, and members with a deferred pension entitlement prior to the Conversion Date receive an annual pension under the Plan equal to the amount of pension paid or payable at the Conversion Date, plus all base COLAs granted by the Board of Trustees.

Members who retire, terminate employment or die prior to terminating employment on or after the Conversion Date receive an annual pension equal to the sum of:

For each year of pensionable service before July 1, 2007 while a member of the AEPP the sum of:

i. 1.3% of the member's indexed best 60 consecutive months' average salary at conversion up to the Indexed Average Yearly Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan at conversion; plus

ii. 2.0% of the member's indexed best 60 consecutive months' average salary at conversion in excess of the Indexed Average Yearly Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan at conversion; plus

For each year of pensionable service between July 1, 2007 and June 30, 2013 while a member of the AEPP, the sum of:

i. 1.0% of the member's indexed best 60 consecutive months' average salary at conversion up to the Indexed Average Yearly Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan at conversion; plus

ii. 1.7% of the member's indexed best 60 consecutive months' average salary at conversion in excess of the Indexed Average Yearly Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan at conversion; plus

For each year of pensionable service while a member of the Plan on or after the Conversion Date, the sum of:

i. 1.1% of the member's indexed pensionable salary up to the indexed YMPE; plus

ii. 1.8% of the member's indexed pensionable salary up to the Maximum Pensionable salary at the date of determination in excess of the indexed YMPE; and

All Base Pension COLAs granted by the Board of Trustees following the member's date of retirement, termination of employment or death prior to termination of employment, as applicable.

Normal retirement age is 65 with reduced benefits available starting at age 55.

1. Description of Plan (continued):

(d) Survivors' pensions:

The pension payable to the surviving spouse is equal to 60% of the member's accrued pension, payable for the lifetime of the spouse. A children's pension is payable where a member dies without leaving an eligible spouse or where a surviving spouse dies. The total children's pension is equal to the surviving spouse's pension and is payable until each child reaches 18.

(e) Minimum death benefit:

The benefits payable on or after the death of a non-retired member are guaranteed to be at least equal to the member's contributions to the Plan and to the AEPP with credited interest. In addition, where a survivor spouse's pension or a children's pension ceases to be payable and no person remains to whom a pension is subsequently payable, a lump sum benefit will be payable to the member's beneficiary or estate equal to the amount, if any, by which the member's own contributions to the Plan and the AEPP plus credited interest thereon exceeds the total of all pension payments made in respect of the member.

(f) Termination benefits:

A member whose employment terminates after completing two years of Plan membership is eligible to receive a deferred pension commencing at normal retirement date equal to the pension accrued at the date of termination adjusted for Base Pension COLAs granted by the Board of Trustees since termination. Such a member may elect to start receiving pension payments on the first day of any month within 10 years preceding normal retirement date. In that case, the amount of early retirement pension will be equal to the normal retirement pension reduced by 5/12 of 1% for each month preceding normal retirement date for periods of service prior to the Conversion Date and to the actuarial equivalent pension for periods of service after the Conversion Date. The amount of deferred pension is also subject to the minimum requirements of New Brunswick pension legislation.

Such a member may elect to leave his or her entitlements in the Plan or, if not entitled to an immediate early retirement pension, transfer the termination value to a subsequent employer's pension plan, to an individual Registered Retirement Saving arrangement or to purchase a lifetime pension.

Any other terminating member is entitled to a refund of his or her contributions with interest.

1. Description of Plan (continued):

(g) Pension escalation:

The Plan provides that Base COLA may be provided by the Board of Trustees in accordance with the Funding Policy. Base COLA is comprised of Base Pension COLA and Base Consumer Price Index (CPI) COLA.

Base Pension COLA may be granted by the Board of Trustees in accordance with the Funding Policy for members who are receiving a pension or have terminated employment at the relevant date. The amount of eligible Base Pension COLA for a given year is determined based on the target indexing formula, which varies by period of pensionable service.

Base CPI COLA may be granted by the Board of Trustees in accordance with the Funding Policy for members who are accruing benefits at the relevant date. The amount of eligible Base CPI COLA for a given year is determined as 100% of the increase in the average CPI for the 12-months ending June 30 of the current year over the average CPI for the 12-months ending June 30 of the previous year.

Eligible Base Pension COLA and eligible Base CPI COLA for a given year may only be partially granted or waived depending on the funding excess available and the funding excess utilization priorities specified in the Funding Policy.

2. Significant accounting policies:

General:

The financial statements have been prepared in accordance with Canadian accounting standards for pension plans.

(a) Basis of presentation:

These financial statements are prepared on the going-concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the University and the AUNBT. They are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal period but they do not portray the funding requirements of the Plan or the benefit security of individual plan members (see note 6 for funding policy).

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 CPA Canada Handbook – Accounting or Canadian accounting standards for private enterprises (ASPE) in Part II of the CPA Canada Handbook – Accounting. The Plan has chosen to comply on a consistent basis with ASPE.

(b) 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 statements of changes in net assets available for benefits as incurred.

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

All other non-derivative financial assets including contributions receivable 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.

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 on sale of investments.

2. Significant accounting policies (continued):

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

(ii) Non-derivative financial liabilities:

All financial liabilities are recognized initially 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 statements of financial position 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.

(c) Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

As allowed under IFRS 13, if an asset or 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.

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.

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

2. Significant accounting policies (continued):

(c) Fair value measurement (continued):

Fair values of investments are determined as follows:

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.

Pooled funds 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.

Investments in derivative financial instruments, including futures and forwards contracts, are valued at year-end quoted market prices.

(d) Foreign currency:

Transactions in foreign currencies are translated into Canadian dollars at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Canadian dollars at the exchange rate at that date.

(e) Income recognition:

Investment income is recorded on an accrual basis and includes distribution income from pooled fund units to the extent of amounts distributed.

(f) Net realized gain on sale of investments:

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

(g) Change in net unrealized gain or loss

The change in net unrealized gain or loss is the annual change of the difference between the fair value of investments and their cost.

(h) Contributions:

Contributions from members and the University are recorded on an accrual basis. Required University and member contribution rates are determined by the Board of Trustees in accordance with the Funding Policy. The rates consist of the Funding policy normal cost plus an additional amount required to meet the primary and secondary risk management goals for the Plan. Contributions are not identified as current service and past service contributions.

(in thousands of dollars)

2. Significant accounting policies (continued):

(i) Use of estimates and judgments:

The preparation of the financial statements requires judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities at the date of the statement of financial position 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.

(j) Income taxes:

The Plan is a Registered Pension Trust as defined in the Income Tax Act and is not subject to income taxes.

3. Investments held by custodian:

	2014	2013
Cash	$ 551	$ 7
Royal Bank STIF	2,622	2,643
Beutel Goodman Income Fund Class I	65,858	56,456
Blackrock Universe Bond Index Pooled Fund	49,883	45,907
State Street Global Advisors (note 4)	535	(776)
Blackrock Active Canadian Equity	56,943	43,203
GMO World Opportunities Fund	49,135	41,875
Sprucegrove Global Equity Pooled Fund	46,736	42,419
	272,263	231,734
Rate stabilization account – Royal Bank STIF (note 5)	–	448
	$ 272,263	$ 232,182

The determination of fair value is dependent upon the use of measurement inputs with varying degrees of subjectivity. The level of subjectivity can be classified and is referred to as the fair value hierarchy. The fair value hierarchy levels are:

Level 1 – Quoted market prices in active markets for identical assets of liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.

Level 3 – Inputs that are unobservable that are used to measure fair value when observable inputs are not available.

All investments are classified as level 2.

(in thousands of dollars)

4. Derivative financial instruments:

Derivatives are financial contracts, the value of which is derived from the value of underlying assets, or exchange rates. The Plan utilizes such contracts for managing exposure to foreign currency volatility. Derivative contracts are transacted either on a regulated exchange market or in the over-the-counter market directly between two counterparties.

Futures and forwards are contractual obligations either to buy or to sell a specified amount of foreign currencies at predetermined future dates and prices. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining. Forwards are customized contracts in the over-the-counter market.

At June 30, 2014, the Plan had the following derivative contracts:

	Notional amount		Fair value	
	2014	2013	2014	2013
Foreign exchange contracts	$ 36,457	$ 34,052	$ 535	$ (776)

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

The currency contracts which settle on July 7 are for the sale of $36,755 Canadian Dollars. The average exchange rate varies as the contracts are to sell Canadian Dollar against various global currencies.

The forward currency contracts which settle on August 6 are to purchase $36,457 Canadian Dollars. The average exchange rate varies as the contracts are to purchase Canadian Dollar against various global currencies.

5. Pension obligations:

Prior to the conversion to a SRPP on July, 1, 2013, the present value of accrued pension benefits was determined using the projected unit credit cost method and the Board of Trustees' best estimates. An actuarial valuation was prepared as of July 1, 2012 and then extrapolated to June 30, 2013.

On conversion to a SRPP, the present value of accrued pension benefits was calculated using the actuarial cost method for funding policy valuations prepared to meet the requirements of the Pension Benefits Act (New Brunswick) and the Shared Risk Plan Regulation under the Act. The funding policy liability has been calculated using the projected unit credit cost method. Actuarial valuation were prepared on conversion at July 1, 2013 and as of July 1, 2014 by Towers Watson Canada Inc., a firm of consulting actuaries. The next funding policy valuation is expected to be performed no later than July 1, 2015.

(in thousands of dollars)

5. Pension obligations (continued):

The funding policy liability was calculated as the actuarial present value of each active and disabled member's prospective base benefits and ancillary benefits accrued for credited service to date (the benefit accrual method), excluding any escalated adjustments that do not form part of the base benefits at the actuarial valuation date. However, the funding policy liability does include the value of any escalated adjustments attributable to future progress-through-the-ranks (PTR) adjustments in respect of credited service prior to the actuarial valuation date, based on the Indexed PTR adjustment in effect at the actuarial valuation date. The calculation of the actuarial present value of the members' prospective benefits is at least equal to the members' contributions with interest. The funding policy liability for retired members and beneficiaries and terminated vested members was calculated as the actuarial present value of their respective benefits.

The financial position of the Plan on a funding policy basis is determined by deducting the funding policy liability from the funding policy asset value. For funding policy purposes only, the asset value includes the present value of excess contributions ($77,641) defined as the excess of expected contributions less funding policy normal cost for each year in the 15 years after the actuarial valuation date. This amount is added to the asset value for policy testing in order to determine the Plan funded status for the purpose of the application of the funding policy. The present value of the excess contributions does not represent an asset as per the accounting standards and is therefore excluded when determining the net assets available for benefit for financial statement purposes.

The main assumptions used in determining the actuarial present value of accrued pension benefits are as follows:

	2014	2013
Asset rate of return	4.50%	5.50%
Discount rate	4.50%	5.50%
Inflation	2.00%	2.25%
Salary escalation rate	3.00% per annum*	3.25% per annum*
Mortality	2014 Public Sector Canadian Pensioners' Mortality Table, projected generationally using Scale B, adjusted for industry classification (86.6% Male and 94.2% Female)	1994 Uninsured Pensioners' Mortality Table

**Plus annual PTR adjustments*

5. Pension obligations (continued):

Stabilization account

The University and AUNBT entered into a multi-year agreement in 2007 to improve and stabilize the AEPP. Both parties provided special funding to the pension fund to create a Rate Stabilization Account and provided special funding to reduce the Plan deficit. The agreement expired on July 1, 2013 and in January 2015, the parties approved the transfer of the funds held under the Rate Stabilization Account to the invested assets of the Plan. The actuarial valuation prepared on July 1, 2014 includes the assets formerly held in the Stabilization Account.

6. Funding policy:

As required by applicable pension legislation, the University and the AUNBT have approved a Funding Policy for the Plan. The Funding Policy provides the rules under which the Board of Trustees is required to manage the contributions and benefits under the Plan.

The primary risk management goal for the Plan is that there is at least a 97.5% probability that past Base Benefits will not be reduced in any year over a 20-year projection period.

The secondary risk management goal for the Plan is that the total COLA expected to be provided, on average over a 20-year projection period, as a percentage of total eligible Base COLA will not be less than:

i. For pensions in payment for members who have retired or surviving spouses and beneficiaries, and pensions payable for members with a deferred pension entitlement, 75% of the cumulative annual indexing that would have been provided if the AEPP had not been converted ; plus

ii. For members who have not retired, terminated or died, 75% of the cumulative percentage increase in CPI for each year on or after the Conversion Date in respect of the accrued benefits.

The Funding Deficit Recovery Plan is triggered when the open group funded ratio drops below 100% in two successive actuarial valuation reports. The following actions must be applied in succession until the funding goals and risk management objectives are met:

i. Increase Member and employer contributions equally, subject to Funding Policy limits;

ii. Reduce Base Benefits in equal proportion for all members (required only if the primary risk management goal is not met following the maximum permitted contribution increase).

The Funding Excess Utilization Plan is triggered when the open group funded ratio exceeds 105%. The Policy provides that 17% of the funding excess between funding levels 105% and 140%, and 100% of any funding excess above a 140% funding level, is available for benefit improvements. The following actions, in order of priority, must be taken:

i. Reverse any previous reductions to base benefits;

(in thousands of dollars)

6. Funding policy (continued):

ii. Remove any contribution increases in effect;

iii. Provide Base COLA, and

iv. After the above priorities have been met, 50% of any available funding excess will be used to provide PTR recapture, and 50% of any available funding excess above a 140% funding level shall be used to reduce contributions in accordance with the Funding Policy limits.

7. Administrative expenses:

	2014	2013
Investment management fees	$ 879	$ 417
Investment consulting fees	397	80
Benefits administration	103	56
Custodial services	85	39
Actuarial services	67	–
Insurance	26	13
Audit services	16	5
Receiver general	8	3
Registration fees	6	3
Sundry	3	3
Legal services	–	4
	$ 1,590	$ 623

8. Financial instruments:

(a) Fair values

Determination of fair values of investments and derivatives are as described in note 2 (c).

The fair values of other financial assets and liabilities, being cash, contributions receivable, accounts receivable and accounts payable and accrued liabilities approximates their carrying amounts due to the short term nature of these financial instruments.

(b) 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 traded financial instruments is not backed by an exchange clearing house.

The Plan invests only in high quality funds and as such does not expect any counterparty to fail to meet its obligations.

8. Financial instruments (continued):

(c) Liquidity risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. A significant portion of the Plan’s investments are held in pooled funds and are readily available on short notice. Although market events could lead to some investments becoming illiquid, the diversity of the Plan’s portfolios should ensure that liquidity is available for benefit payments.

(d) 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 those changes are caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. As all of the financial instruments are carried at fair value with fair value changes recognized in the statement of net assets available for benefits, all changes in market conditions will directly result in an increase (decrease) in net assets. Market price risk is managed by the construction of a diversified portfolio of instruments traded on various markets and across various industries through its pooled fund investments.

(e) Foreign currency risk

Foreign currency risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Plan holds financial instruments denominated in currencies other than the Canadian dollar. Consequently, the Plan is exposed to risk that the exchange rates 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 the Canadian dollar.

The Plan's currency exposure to fluctuations in US exchange rates at June 30, 2014 is $49,135 (2013 - $41,875).

9. Capital management:

The capital of the Plan is represented by the net assets available for benefits. The purpose of the Plan is to provide secure, but not guaranteed, pension benefits to Members of the Plan with a risk focused management approach, as set out in the Funding Policy (note 6), to deliver Base Benefits. In order to meet the requirements, the investment strategy employed should be consistent with the Funding Policy. The Plan adheres to specific investment policies outlined in its Statement of Investment Policies and Procedures (the "SIP&P"), which is reviewed annually.

The Plan's investment positions expose it to a variety of financial risks which are discussed in note 8. The Plan manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employee and employer contributions) in accordance with the approved SIP&P. The allocation of assets among various asset categories is monitored by the Plan administrator on a monthly basis.

Increases in net assets available for benefits are a direct result of investment income generated by investments held by the Plan and contributions into the Plan by eligible employees and by the University. The employer is required under the Pension Benefits Act to pay contributions, based on actuarial valuations, necessary to ensure the benefits are funded in accordance with the funding policy. More details on employee and employer contributions that were paid during the year is disclosed in the statement of changes in net assets available for benefits.

10. Comparative information:

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior years’ net assets available for benefits.