



Financial Statements

Halifax Regional Water Commission

Employees' Pension Plan

December 31, 2016

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## Independent auditor's report

To the Board of Trustees of the  
Halifax Regional Water Commission  
Employees' Pension Plan

We have audited the accompanying financial statements of Halifax Regional Water Commission Employees' Pension Plan, which comprise the statement of financial position as at December 31, 2016 and the statement of changes in net assets available for benefits and the statement of changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management 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 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 in our audit 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 Halifax Regional Water Commission Employees' Pension Plan as at December 31, 2016, and the 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.

Halifax, Canada  
June 28, 2017



Chartered Professional Accountants  
Licensed Public Accountants

# **Halifax Regional Water Commission** **Employees' Pension Plan** **Statement of financial position**

December 31	2016	2015
<b>Assets</b>		
Investment assets (note 3)	\$ 107,043,865	\$ 100,407,501
Contributions receivable	<u>40,166</u>	<u>59,371</u>
	107,084,031	100,466,872
<b>Liabilities</b>		
Payables and accruals		
Trade	<u>16,035</u>	<u>32,428</u>
Net assets available for benefits (note 4)	107,067,996	100,434,444
Pension obligations (page 4)	<u>114,046,900</u>	<u>108,055,300</u>
Deficiency	\$ <u>(6,978,904)</u>	\$ <u>(7,620,856)</u>

On behalf of the Board

[Redacted Signature]

Trustee

[Redacted Signature]

Trustee

See accompanying notes to the financial statements.

**Halifax Regional Water Commission**  
**Employees' Pension Plan**  
**Statement of changes in net assets available for benefits**

Year Ended December 31	2016	2015
<b>Revenue</b>		
Net investment income (note 6)	\$ 2,250,455	\$ 2,161,624
Changes in the fair value of investment assets	<u>4,056,258</u>	<u>7,313,583</u>
	<u>6,306,713</u>	<u>9,475,207</u>
<b>Contributions (note 7)</b>		
Participants	2,484,448	3,253,526
Sponsor	<u>3,090,791</u>	<u>5,694,153</u>
	<u>5,575,239</u>	<u>8,947,679</u>
<b>Expenses</b>		
Benefit payments (note 8)	5,038,702	4,268,029
Administrative (note 9)	<u>209,698</u>	<u>196,501</u>
	<u>5,248,400</u>	<u>4,464,530</u>
<b>Increase in net assets available for benefits</b>	<u>\$ 6,633,552</u>	<u>\$ 13,958,356</u>
<b>Net assets available for benefits, beginning of year</b>	<b>\$ 100,434,444</b>	<b>\$ 86,476,088</b>
<b>Increase in net assets available for benefits</b>	<u><b>6,633,552</b></u>	<u><b>13,958,356</b></u>
<b>Net assets available for benefits, end of year</b>	<u><b>\$ 107,067,996</b></u>	<u><b>\$ 100,434,444</b></u>

See accompanying notes to the financial statements.

# **Halifax Regional Water Commission** **Employees' Pension Plan** **Statement of changes in pension obligations**

Year Ended December 31	2016	2015
Pension obligations, beginning of year	<u>\$ 108,055,300</u>	<u>\$ 109,009,100</u>
Change in pension obligations		
Changes in actuarial assumptions (note 5)	-	(6,488,300)
Impact of Pension Plan changes	-	(2,029,000)
Miscellaneous sources of decrease	-	(231,500)
Interest accrued on benefits	6,259,500	6,043,000
Benefits accrued	4,770,802	6,020,000
Benefits paid (note 8)	<u>(5,038,702)</u>	<u>(4,268,000)</u>
	<u>5,991,600</u>	<u>(953,800)</u>
Pension obligations, end of year	<u>\$ 114,046,900</u>	<u>\$ 108,055,300</u>

See accompanying notes to the financial statements.



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# **Halifax Regional Water Commission**

## **Employees' Pension Plan**

### **Notes to the financial statements**

December 31, 2016

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#### **1. Description of the Plan**

The Halifax Regional Water Commission Employees' Pension Plan (the "Plan") is registered under the Pension Benefits Act of Nova Scotia (Registration Number 0344614). The following description of the Plan is a summary only. For more complete information, reference should be made to the Plan agreement restated as at January 1, 2011 as amended and consolidated, in addition to Amendment #9 and Amendment #10, effective January 1, 2016.

##### **(a) General**

The Halifax Regional Water Commission maintains a contributory defined benefit pension plan for all employees, and participation in the Plan is compulsory for full-time and part-time employees. The pension plan provides pensions based upon length of service and best seven consecutive years' earnings.

The employees who transferred to the Halifax Regional Water Commission on August 1, 2007 with the transfer of the wastewater/stormwater operations have remained members of the Halifax Regional Municipality Pension Plan. The Halifax Regional Water Commission is responsible for funding the employer share of the contributions for these employees. All new employees hired after August 1, 2007 join the Halifax Regional Water Commission Employees' Pension Plan.

Amendment # 9 and Amendment #10 were effective January 1, 2016. Amendment #9 permitted members an option to buy-back lost time as a result of the labour disruption of 2015, and defined rules with respect to the break in service for members. Amendment #10 dealt with negotiated changes in the Plan with the intent to improve the Plan's financial position. Highlights of the changes are as follows:

- Best average annual earnings adjusted from 5 years to 7 years
- Guaranteed indexing of pensions reduced from 2% to 1%
- Maximum earnings cap frozen temporarily for 8 years, then indexed at a rate of 1% per annum
- Conditional current service contribution rates for the employer and employees realigned
- Current service cost for employees on long term disability is shared 50/50 between the employer and employees

Effective June 1, 2015 the amendments to the Nova Scotia Pension Benefits Act and Regulations came into effect which had some immediate impact on the Plan regarding administration of transfer deficiency holdbacks and immediate vesting.

##### **(b) Funding policy**

Employees' required contributions in 2016 were 10.65% (2015 – 12.95%) of pensionable earnings. Pensionable earnings are capped temporarily to a maximum of \$140,945 through 2023, and will be indexed at a rate of 1% per annum thereafter. The Halifax Regional Water Commission matches employee contributions up to 9.85%. Prior to January 1, 2016, the Halifax Regional Water Commission matched employee contributions up to 12.95%. Basic contributions from employers and members due to the Plan at the end of the year are recorded on an accrual basis.

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# **Halifax Regional Water Commission**

## **Employees' Pension Plan**

### **Notes to the financial statements**

December 31, 2016

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#### **1. Description of the Plan (continued)**

##### **(b) Funding policy (continued)**

In addition, the Plan and the Pension Benefits Act of Nova Scotia require that the Halifax Regional Water Commission, from time to time, make contributions to the Plan of such amounts which are required as special payments in accordance with the provisions of the Plan as determined by the actuary (see note 5).

##### **(c) Retirement benefits**

Employees are entitled to annual pension benefits of an amount equal to 2.0% of their best earnings averaged over the highest seven consecutive years of earnings for each year of credited service up to the maximum permitted by the Canada Revenue Agency. For credited service prior to January 1, 2016, the best average earnings cannot be less than the best average five consecutive years of earnings paid to an employee prior to 2016.

Benefits are adjusted each year. Adjustments are based on the increase in the Consumer Price Index over the previous calendar year to a maximum of 2% for benefits earned prior to January 1, 2016, and to a maximum of 1% for benefits earned after December 31, 2015.

##### **(d) Disability pensions**

Disabled employees continue to accrue credited service without having to continue their contributions. The employer and employees fund the actuarial cost of the pensions for disabled employees annually. Disabled employees are eligible for a pension if they meet the following criteria:

- a) they have completed 10 years of continuous participation in the Plan;
- b) they are not in receipt of a salary continuance benefit under an insured plan to which the Halifax Regional Water Commission contributes; and
- c) they are totally and permanently disabled as certified by a medical practitioner.

##### **(e) Death benefits**

A survivor pension is payable to the member's surviving spouse at the rate of 60% of the member's pension credits accrued prior to June 1, 1998. The beneficiary of a single employee who dies before retirement will be entitled to the member's contributions and interest up to the month preceding death. In respect of pension credits accrued after June 1, 1998, the commuted value of the normal retirement benefits shall be paid to the member's beneficiary or estate.



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# **Halifax Regional Water Commission**

## **Employees' Pension Plan**

### **Notes to the financial statements**

December 31, 2016

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#### **1. Description of the Plan (continued)**

##### **(f) Termination of employment**

Subject to any statutory limitations, a member with two or more years of continuous service or Plan membership may elect to receive one of the following options:

- a) a paid-up deferred pension commencing on the member's normal retirement date in an amount equal to the pension accrued to date of termination; or
- b) transfer the value of benefit to the member's new employer's pension plan, a Retirement Savings Plan, or purchase a deferred annuity.

A member with less than two years of Plan membership or continuous service is entitled to a cash payment equal to the member's required contributions with interest calculated to the end of the month in which termination occurs. Upon termination, any member may transfer the value of benefits to his or her new employer's pension plan or Retirement Savings Plan.

On June 1, 2015 revisions to the Pension Benefits Act and Regulations came into effect. One change that impacted the Plan on that date was the provision for immediate vesting, which supersedes the two (2) year vesting period in the Plan as described above.

##### **(g) Voluntary contributions**

Members of the Plan may make additional voluntary contributions up to the deductible limit provided under the Income Tax Act. The non locked-in additional voluntary contributions may be withdrawn from the Plan by a member prior to termination or retirement, either in the form of a lump sum cash payment or transferred directly to the member's Retirement Savings Plan.

Members of the Plan may transfer non locked-in or locked-in benefits from a previous employer. Non locked-in benefits are administered as outlined in the previous paragraph. Locked-in benefits can be withdrawn within ten years of the normal retirement date. Upon retirement, the locked-in and non locked-in contributions may be used to purchase an annuity.

##### **(h) Income taxes**

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

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# **Halifax Regional Water Commission**

## **Employees' Pension Plan**

### **Notes to the financial statements**

December 31, 2016

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#### **2. Statement of compliance with Canadian accounting standards for pension plans and summary of significant accounting policies**

The financial statements are presented in accordance with Canadian accounting standards for pension plans in Part IV of the Chartered Professional Accountants of Canada (CPA) Handbook, Section 4600 – Pension Plans. Section 4600 provides specific accounting guidance on pension obligations and investments, with investments complying with international financial reporting standards ("IFRS") in Part I of the CPA Canada Handbook. For accounting policies that do not relate to either investments or pension obligations, the plan must consistently comply with either IFRS or accounting standards for private enterprises ("ASPE") in Part II of the CPA Canada Handbook. The plan has elected to comply on a consistent basis with ASPE. To the extent that ASPE is inconsistent with Section 4600, Section 4600 takes precedence.

##### **(a) Financial instruments**

Financial assets and financial liabilities are recognized when the Plan becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

All financial assets and financial liabilities are initially measured at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Financial assets and liabilities are subsequently measured as described below:

##### *Investment assets*

All investment assets are measured at fair value at the date of the statement of financial position in accordance with IFRS 13: Fair Value Measurement Part I of the CPA Canada Handbook. Fair values of investment assets are determined as follows:

- Pooled funds are valued at the unit value supplied by the Master Trust administrator and which represent the Plan's proportionate share of underlying net assets at fair value determined using closing bid prices.

Transaction costs are not included in the fair value of investment assets either on initial recognition or on subsequent re-measurement. Transaction costs are included in the statement of changes in net assets available for benefits as part of expenses incurred in the period.

Investment income, excluding changes in the fair value of investment assets, is presented in the statement of changes in net assets available for benefits.

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# **Halifax Regional Water Commission**

## **Employees' Pension Plan**

### **Notes to the financial statements**

December 31, 2016

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#### **2. Statement of compliance with Canadian accounting standards for pension plans and summary of significant accounting policies (continued)**

##### **(a) Financial instruments (continued)**

###### *Financial liabilities*

Financial liabilities are measured subsequently at amortized cost using the effective interest method.

##### **(b) Pension obligations**

The Plan is a defined benefit plan established for members. The pension obligations recognized in the statements of financial position are the actuarial present value of accrued pension benefits determined by applying best estimate assumptions and the projected benefit method prorated on services.

##### **(c) Net investment income**

Income from investments is recognized on an accrual basis and includes dividend income (recognized on ex-dividend date), interest income, and is net of investment manager fees.

##### **(d) Changes in the fair value of investment assets and liabilities**

This includes both realized gains or losses on sale of investments and unrealized gains or losses on investments.

Realized gains or losses on sale of investments are the difference between the proceeds received and the average cost of investments sold.

Unrealized gains or losses on investments represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognized unrealized gains and losses in respect of disposals during the year.

##### **(e) Contributions**

Required employee and employer contributions are recorded the month following when the payroll deductions are made. Employee and employer contributions, as well as special payments due to the Plan at the end of the year are recorded on an accrual basis. Cash received from pension plan transfers or members for service purchases are recorded when received.

##### **(f) Benefits**

Benefit payments to retired members, commuted value payments and refunds to former members are recorded in the period paid. Accrued benefits are recorded as part of the accrued pension benefit obligation.

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# **Halifax Regional Water Commission**

## **Employees' Pension Plan**

### **Notes to the financial statements**

December 31, 2016

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#### **2. Statement of compliance with Canadian accounting standards for pension plans and summary of significant accounting policies (continued)**

##### **(g) Estimation uncertainty**

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, revenue and expenses. The actual results are likely to differ from the judgments, estimates and assumptions made by management and will seldom equal the estimated results. Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, revenue and expenses are discussed below:

##### *Fair value of financial instruments*

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities. In applying the valuation techniques, management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

##### *Pension obligations*

Management estimates the pension obligations annually with the assistance of an independent actuary; however, the actual outcome may vary due to estimation uncertainties. The estimate of the pension obligation of \$114,046,900 (2015 - \$108,055,300) is based on assumed rates of retirement, mortality, breaks in service and contributory hours. Discount factors are determined at or near year-end to reflect the long term expectation of investment returns that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

##### **(h) New accounting standards not yet adopted**

The International Accounting Standards Board (IASB) has issued a number of new and amended standards that are not yet effective and have not been early adopted by the Plan.

- IFRS 9, *Financial Instruments*. The new standards will replace IAS 39, *Financial Instruments: Recognition and Measurement* and includes guidance on recognition and derecognition of financial assets and financial liabilities. The new standard is tentatively effective for annual periods beginning on or after January 1, 2018 and early application is permitted.

Management does not expect any significant impact on either the Plan's financial position or performance when adopting this new standard.

# Halifax Regional Water Commission

## Employees' Pension Plan

### Notes to the financial statements

December 31, 2016

#### 3. Investment assets

The investment in the Halifax Regional Municipality Master Trust (the "HRM Master Trust") is recorded at its fair value. The Plan's interest in the HRM Master Trust represents 6.01% (December 31, 2015 – 5.87%) of the HRM Master Trust units. The remaining units are held by the Halifax Regional Municipality ("HRM"). The co-mingling of investments does not affect the actuarial liabilities or the net assets available for benefits of the Plan.

The fair value of the investment in the HRM Master Trust is determined as at the date of the statements of financial position as described in note 2(a). The fair value of the investment in the HRM Master Trust is categorized as a Level 2 investment under fair value hierarchy measurement.

Section 67 (3) of the *Pension Benefits Act Regulations* requires disclosure of each investment asset that has a fair value greater than two percent (2%) of the fair value of all the investment assets of the Plan. The following schedule reports all investments having a fair value greater than 2% of the fair value of all investment assets of the Plan.

<u>Investment</u>	<u>Investment type</u>	<u>Market value</u>
Blackrock Active Canadian Equity Fund	Canadian Equities	\$ 4,793,306
Wellington Management Global Total Return Fund	Foreign Bonds	4,467,917
Putnam Canadian Fixed Income Global Alpha Fund	Canadian Bonds	3,665,790
GCM Grosvenor Opportunistic Investments, LP	Limited Partnership	2,868,264
ACM Bernstein SICAV Emerging Consumer Portfolio	Foreign Equity	2,336,164
UBS (UK) Real Estate Funds Selection Global Ex Canada, L.P.	Limited Partnership	2,288,131
Minto Multi-Residential Income Partners 1, LP	Limited Partnership	2,179,239
Macquarie European Infrastructure Fund 4, LP	Limited Partnership	<u>2,147,879</u>
		<u>\$ 24,746,690</u>



# Halifax Regional Water Commission

## Employees' Pension Plan

### Notes to the financial statements

December 31, 2016

#### 4. Net assets available for benefits 2016 2015

##### Allocation of net assets available for benefits

To pension plan	<b>\$106,638,861</b>	\$ 100,007,378
To extra voluntary contribution benefits	<b>204,657</b>	213,409
To individual locked in amounts	<u><b>224,478</b></u>	<u>213,657</u>
	<u><b>\$ 107,067,996</b></u>	<u>\$ 100,434,444</u>

#### 5. Pension obligations

The actuarial value of accrued benefits, determined periodically by the Plan's actuary, is the amount that results from applying actuarial assumptions to adjust the Plan benefits to reflect the time value of money between the valuation date and the expected date of payment. The significant actuarial assumptions used include:

- a) 40% of members will retire at the age of 65, and 60% will retire at the earliest date of eligibility for an unreduced pension;
- b) interest rate assumption of 5.80% per annum (2015 – 5.80%);
- c) salary scale assumption of 3.90% per annum (2015 – 3.90%); and
- d) life expectancy of participants based upon the CPM-2014 Combined mortality table, with Scale CPM-B improvements.

An actuarial valuation of the Halifax Regional Water Commission Employees' Pension Plan was performed as at January 1, 2016 by Eckler Ltd. The January 1, 2016 actuarial valuation resulted in an unfunded liability of \$7,620,900, and the Halifax Regional Water Commission was required to make special payments which were being amortized over 15 years. This resulted in an unfunded liability payment of \$825,200 (2015 - \$2,952,200) as shown in note 7. The unfunded liability payment of \$825,200 will continue until a new actuarial valuation is completed, with the next normal actuarial valuation of the Halifax Regional Water Commission Employees' Pension Plan required to be performed no later than January 1, 2019.



# **Halifax Regional Water Commission** **Employees' Pension Plan** **Notes to the financial statements**

December 31, 2016

<b>6. Net investment income</b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Income from investment funds	\$ 2,389,377	\$ 2,350,179
Investment manager fees	<u>(138,922)</u>	<u>(188,555)</u>
	<b><u>\$ 2,250,455</u></b>	<b><u>\$ 2,161,624</u></b>

<b>7. Contributions</b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Participants' contributions		
Required	\$ 2,453,597	\$ 2,628,465
Reciprocal transfer agreements	-	598,383
Voluntary	<u>30,851</u>	<u>26,678</u>
	<b><u>\$ 2,484,448</u></b>	<b><u>\$ 3,253,526</u></b>
Sponsor's contributions		
Required	\$ 2,265,591	\$ 2,597,053
Unfunded liability	<u>825,200</u>	<u>2,952,200</u>
Special	-	144,900
	<b><u>\$ 3,090,791</u></b>	<b><u>\$ 5,694,153</u></b>

<b>8. Benefit payments</b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Retirement benefit payments	\$ 3,536,894	\$ 3,246,032
Termination benefit payments	<u>992,572</u>	<u>1,021,997</u>
Death benefit payments	<u>509,236</u>	-
	<b><u>\$ 5,038,702</u></b>	<b><u>\$ 4,268,029</u></b>

During 2016, there were 16 termination benefit payments (2015 – 15) and 1 death benefit payment (2015 – None). Termination benefits are paid out as described in note 1(f) and death benefit payments are paid out as described in note 1(e).

# Halifax Regional Water Commission

## Employees' Pension Plan

### Notes to the financial statements

December 31, 2016

<b>9. Administrative expenses</b>	<b><u>2016</u></b>	<b><u>2015</u></b>
Actuarial and consulting fees	\$ 128,676	\$ 134,296
Audit and accounting fees	15,999	660
Bank custodian fees	26,510	21,567
Insurance	7,950	7,950
Miscellaneous	15,560	11,641
Professional fees	12,845	18,313
Registration fees	<u>2,158</u>	<u>2,074</u>
	<b><u>\$ 209,698</u></b>	<b><u>\$ 196,501</u></b>

#### **10. Related party transactions**

The Halifax Regional Water Commission, the Plan's sponsor, collects the Plan's contributions and pays certain expenses on behalf of the Plan. These items are then credited or charged back to the Plan.

#### **11. Financial instruments**

##### **Financial instruments risk exposure and management**

The Plan is exposed to various risks in relation to its investment in the HRM Master Trust, consisting of investment assets. The Plan's financial assets are categorized in Level 2. The main types of risks are market risk, credit risk and liquidity risk.

The Plan's risk management policy is derived from the HRM Master Trust in which the Plan holds units. The HRM Master Trust has formal policies and procedures placed upon it that establish an asset mix among equity and fixed income investments, required diversification of investments within categories, a set limit on the size of exposure to individual investments, and a requirement to use A-rated counterparties.

The Plan does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Plan is exposed are described below:

##### **(a) Market risks**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. For purposes of this disclosure, the Plan segregates market risk into three categories: interest rate risk, currency risk and other price risk.

##### *i. Interest rate risk*

Interest rate risk refers to the fact that the value of the Plan's assets is affected by changes in nominal interest rates and equity markets.

##### *ii. Currency risk*

The Plan's functional currency is Canadian dollars and all of the Plan's transactions are carried out in Canadian dollars.

# Halifax Regional Water Commission

## Employees' Pension Plan

### Notes to the financial statements

December 31, 2016

#### 11. Financial instruments (continued)

##### (a) Market risks (continued)

##### iii. Other price risk

Other price risk is the risk that the fair value or future cash flows of financial instruments 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 investment or factors affecting all securities traded in the market.

All investments have a risk of loss of capital. The maximum risk resulting from the investments is determined by the fair value of these instruments, which total \$107,043,865 at December 31, 2016 (2015 - \$100,407,501). A one percent (1%) change in market risk (holding all variables constant) will impact the fair value of these investments by approximately \$1,070,439 (2015 - \$1,004,075).

##### (b) Credit risk

Credit risk on financial instruments is the risk of financial loss occurring as a result of default or insolvency of a counterparty on its obligations to the Plan. The Plan's credit risk is primarily attributable to the underlying assets of the HRM Master Trust. Credit risk is mitigated through the management of the HRM Master Trust assets with generally accepted parameters of safety and prudence, using a diversified investment program. Investments in the HRM Master Trust must adhere to specific limitations as outlined in the Halifax Regional Municipality's Statement of Investment Policies and Procedures for the Defined Benefit Pension Plan ("the Statement of Investment Policies and Procedures").

##### (c) Liquidity risk

Liquidity risk is the risk of not being able to meet the Plan's cash requirements in a timely and cost effective manner. Liquidity requirements are managed through income generated from investments and monthly contributions made by members and participating employers. The sources of funds are used to pay pension benefits, make additional investments and fund operating expenses. The Plan's primary future liabilities include the accrued benefit obligation of the Plan. The Plan's main asset, the investment in the HRM Master Trust, is liquid as cash is available to make required payments.

The following are the contractual maturities of financial liabilities:

Payments due year ending December 31, 2016

	<u>Total</u>	<u>Less than 1 year</u>	<u>1 - 3 years</u>	<u>4 - 5 years</u>	<u>After 5 years</u>
Payables and accruals	\$ 16,035	\$ 16,035	\$ -	\$ -	\$ -

# Halifax Regional Water Commission

## Employees' Pension Plan

### Notes to the financial statements

December 31, 2016

#### 11. Financial instruments (continued)

##### (c) Liquidity risk (continued)

Payments due year ending December 31, 2015

	<u>Total</u>	<u>Less than 1 year</u>	<u>1 - 3 years</u>	<u>4 - 5 years</u>	<u>After 5 years</u>
Payables and accruals	\$ 32,428	\$ 32,428	\$ -	\$ -	\$ -

#### Fair value disclosure

The financial instruments recognized at fair value on the statement of financial position must be classified as one of three fair value hierarchy levels. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

Financial assets at fair value as at December 31, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Pooled fund	\$ -	\$ 107,043,865	\$ -	\$ 107,043,865

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# Halifax Regional Water Commission

## Employees' Pension Plan

### Notes to the financial statements

December 31, 2016

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#### 11. Financial instruments (continued)

##### Fair value disclosure (continued)

Financial assets at fair value as at December 31, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Pooled fund	\$ -	\$ 100,407,501	\$ -	\$ 100,407,501

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

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#### 12. Capital management

The Plan defines its capital as the deficiency of the Plan, as determined annually based on the fair value of net assets and actuarial liabilities, provided by the actuarial valuation prepared by the Plan's independent actuary (note 5).

The overall objectives in investing the assets of the Plan are to ensure sufficient liquidity to support its financial obligations, to continue to provide benefits in the best interest of its members, to remain financially self-sufficient and to preserve and enhance the value of capital through adequate diversification in high quality investments and achieve the highest investment return that can be obtained with the assumption of an acceptable degree of risk. The Plan holds units with the HRM Master Trust which has formal policies and procedures that establish asset mix, require diversification within different categories, set a limit on the exposure to individual investments and provides a requirement to use A-rated counterparties.

# High School Yearbook 1950-1951 The Yearbook of the High School

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