



Financial Statements

Halifax Regional Water Commission

Employees' Pension Plan

December 31, 2018

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Independent auditor's report

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

Opinion

We have audited the financial statements of Halifax Regional Water Commission Employees' Pension Plan, which comprise the statement of financial position as at December 31, 2018, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Halifax Regional Water Commission Employees' Pension Plan as at December 31, 2018, and its changes in net assets available for benefits and its changes in pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Halifax Regional Water Commission Employees' Pension Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance 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.

In preparing the financial statements, management is responsible for assessing Halifax Regional Water Commission Employees' Pension Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Halifax Regional Water Commission Employees' Pension Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Halifax Regional Water Commission Employees' Pension Plan's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Halifax Regional Water Commission Employees' Pension Plan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Halifax Regional Water Commission Employees' Pension Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Halifax Regional Water Commission Employees' Pension Plan to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Halifax, Canada
June 20, 2019

Chartered Professional Accountants
Licensed Public Accountants

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

| December 31 | 2018 | 2017 |
|--|---------------------|-----------------------|
| Assets | | |
| Investment assets | \$ 126,419,604 | \$ 119,713,036 |
| Contributions receivable | <u>67,261</u> | <u>43,194</u> |
| | 126,486,865 | 119,756,230 |
| Liabilities | | |
| Payables and accruals | | |
| Trade | <u>28,235</u> | <u>24,348</u> |
| Net assets available for benefits (note 4) | 126,458,630 | 119,731,882 |
| Pension obligations (page 5) | <u>124,371,400</u> | <u>121,473,083</u> |
| Surplus (deficiency) | \$ 2,087,230 | \$ (1,741,201) |

On behalf of the Board

 Trustee

 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 | 2018 | 2017 |
|--|-----------------------|-----------------------|
| Revenue | | |
| Net investment income (note 6) | \$ 2,773,356 | \$ 2,475,604 |
| Changes in the fair value of investment assets | <u>1,763,098</u> | <u>8,712,459</u> |
| | <u>4,536,454</u> | <u>11,188,063</u> |
| Contributions (note 7) | | |
| Participants | 2,845,791 | 2,665,078 |
| Sponsor | <u>3,404,042</u> | <u>3,247,727</u> |
| | <u>6,249,833</u> | <u>5,912,805</u> |
| Expenses | | |
| Benefit payments (note 8) | 3,928,067 | 4,296,017 |
| Administrative (note 9) | <u>131,472</u> | <u>140,965</u> |
| | <u>4,059,539</u> | <u>4,436,982</u> |
| Increase in net assets available for benefits | <u>\$ 6,726,748</u> | <u>\$ 12,663,886</u> |
| Net assets available for benefits, beginning of year | | |
| | \$ 119,731,882 | \$ 107,067,996 |
| Increase in net assets available for benefits | <u>6,726,748</u> | <u>12,663,886</u> |
| Net assets available for benefits, end of year | <u>\$ 126,458,630</u> | <u>\$ 119,731,882</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 | 2018 | 2017 |
|---|-----------------------|-----------------------|
| Pension obligations, beginning of year | <u>\$ 121,473,083</u> | <u>\$ 114,046,900</u> |
| Change in pension obligations | | |
| Changes in actuarial assumptions (Note 5) | (5,383,916) | - |
| Miscellaneous sources of decrease | (277,700) | - |
| Interest accrued on benefits | 7,087,500 | 6,637,300 |
| Benefits accrued | 5,400,500 | 5,084,900 |
| Benefits paid (note 8) | <u>(3,928,067)</u> | <u>(4,296,017)</u> |
| | <u>2,898,317</u> | <u>7,426,183</u> |
| Pension obligations, end of year | <u>\$ 124,371,400</u> | <u>\$ 121,473,083</u> |

See accompanying notes to the financial statements.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2018

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, both effective January 1, 2016, and Amendment #11, effective retroactively to June 1, 2015.

(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.

Plan Amendment #11 was approved during 2018, effective retroactively to June 1, 2015. This amendment formally brought the Plan into compliance with the June 1, 2015 changes to the Nova Scotia *Pension Benefits Act* and its *Regulations*. The Plan has been administered in accordance with the June 1, 2015 changes to the Nova Scotia *Pension Benefits Act* and its *Regulations* as required, even though formal changes to the Plan were completed in 2018. The amendment was administrative in nature, and dealt with certain changes to the minimum standards for member benefits, the most notable being:

- Definition of spouse;
- Small benefit;
- Vesting, and
- Pre-retirement death benefit.

(b) Funding policy

Employees' required contributions in 2018 were 10.65% (2017 – 10.65%) 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% (2017 – 9.85%). Basic contributions from employers and members due to the Plan at the end of the year are recorded on an accrual basis.

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).

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2018

1. Description of the Plan (continued)

(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

In the event a pensioner dies after the commencement of their pension payments, the death benefit will be in accordance with the normal or optional form of pension elected at the time of retirement.

In the event a member dies before their retirement date, 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 during that same period. 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 surviving spouse, beneficiary or estate. Amendment #11 provides provisions relating to member pension credits accrued between January 1, 1988 and May 31, 1998 whereby a survivor pension payable to the member's surviving spouse is calculated as the greater of: 1) 60% of the survivor pension, or 2) the commuted value of the normal retirement benefits. The beneficiary or estate of a single employee who dies during this same time period, January 1, 1988 and May 31, 1998, would be entitled to the commuted value of the normal retirement benefits.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2018

1. Description of the Plan (continued)

(f) Termination of employment

Subject to any statutory limitations and as provided in Amendment #11, Plan members become vested immediately upon joining the Plan. Vesting previously occurred after two years of Plan membership. Members may elect to receive one of the following options upon termination:

- 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.

(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.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2018

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 Canadian 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.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2018

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.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2018

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

(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.

(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 \$124,371,400 (2017 - \$121,473,083) 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.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2018

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 6.24% (December 31, 2017 – 6.11%) 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>Asset Class</u> | <u>Market value</u> |
|--|---------------------------------------|----------------------|
| Wellington Management Global Total Return Fund | Foreign Bonds ¹ | \$ 5,135,296 |
| Wellington Emerging Markets Local Equity Fund | Emerging Market Equities ¹ | 3,179,579 |
| Putnam Canadian Fixed Income Global Alpha Fund | Canadian Bonds ¹ | 3,083,827 |
| Minto Multi-Residential Income Partners I, L.P. | Limited Partnership | 2,935,516 |
| UBS (UK) Real Estate Funds Selection Global Ex Canada, L.P. | Limited Partnership | 2,685,726 |
| Blackrock Active Canadian Equity Fund | Canadian Equities ¹ | <u>2,540,701</u> |
| | | <u>\$ 19,560,645</u> |

1 – Denotes Pooled Fund

4. Net assets available for benefits 2018 2017

Allocation of net assets available for benefits

| | | |
|--|------------------------------|-----------------------|
| To pension plan | \$ 125,961,206 | \$ 119,238,702 |
| To extra voluntary contribution benefits | 270,793 | 245,513 |
| To individual locked in amounts | <u>226,631</u> | <u>247,667</u> |
| | <u>\$ 126,458,630</u> | <u>\$ 119,731,882</u> |

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2018

5. Pension obligations

An actuarial valuation of the Halifax Regional Water Commission Employees' Pension Plan was performed as at January 1, 2019.

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 (2017 – 5.80%);
- c) salary scale assumption of 3.90% per annum (2017 – 3.90%); and
- d) life expectancy of participants based upon the CPM-2014 Combined mortality table, with Scale CPM-B improvements.

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 (2017 - \$825,200) as shown in note 7.

As a result of the January 1, 2019 actuarial valuation, special payments in respect of going concern liabilities are no longer required. The next actuarial valuation for the Halifax Regional Water Commission Employees' Pension Plan is required to be performed no later than January 1, 2022.

6. Net investment income

| | <u>2018</u> | <u>2017</u> |
|------------------------------|---------------------|---------------------|
| Income from investment funds | \$ 2,939,026 | \$ 2,622,024 |
| Investment manager fees | <u>(165,670)</u> | <u>(146,420)</u> |
| | <u>\$ 2,773,356</u> | <u>\$ 2,475,604</u> |

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2018

| 7. Contributions | <u>2018</u> | <u>2017</u> |
|--------------------------------------|----------------------------|----------------------------|
| Participants' contributions | | |
| Required | \$ 2,788,280 | \$ 2,619,586 |
| Voluntary | <u>57,511</u> | <u>45,492</u> |
| | <u>\$ 2,845,791</u> | <u>\$ 2,665,078</u> |
| Sponsor's contributions | | |
| Required | \$ 2,578,842 | \$ 2,422,527 |
| Unfunded liability – special payment | <u>825,200</u> | <u>825,200</u> |
| | <u>\$ 3,404,042</u> | <u>\$ 3,247,727</u> |

| 8. Benefit payments | <u>2018</u> | <u>2017</u> |
|------------------------------|----------------------------|----------------------------|
| Retirement benefit payments | \$ 3,848,218 | \$ 3,738,659 |
| Termination benefit payments | 79,849 | 314,591 |
| Death benefit payments | <u>-</u> | <u>242,767</u> |
| | <u>\$ 3,928,067</u> | <u>\$ 4,296,017</u> |

During 2018, there were 6 termination benefit payments (2017 – 18) and no death benefit payments (2017 – 1). Termination benefits are paid out as described in note 1(f) and death benefit payments are paid out as described in note 1(e).

| 9. Administrative expenses | <u>2018</u> | <u>2017</u> |
|-----------------------------------|--------------------------|--------------------------|
| Actuarial and consulting fees | \$ 50,409 | \$ 67,394 |
| Audit and accounting fees | 8,441 | 9,283 |
| Bank custodian fees | 32,303 | 20,132 |
| Insurance | 8,347 | 8,347 |
| Miscellaneous | 16,195 | 18,965 |
| Professional fees | 13,440 | 14,623 |
| Registration fees | <u>2,337</u> | <u>2,221</u> |
| | <u>\$ 131,472</u> | <u>\$ 140,965</u> |

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.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2018

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.

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 \$126,419,604 at December 31, 2018 (2017 - \$119,713,036). A one percent (1%) change in market risk (holding all variables constant) will impact the fair value of these investments by approximately \$1,264,196 (2017 - \$1,119,713).

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2018

11. Financial instruments (continued)

(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, 2018

| | <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 | <u>\$ 28,235</u> | <u>\$ 28,235</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Payments due year ending December 31, 2017

| | <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 | <u>\$ 24,348</u> | <u>\$ 24,348</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2018

11. Financial instruments (continued)

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, 2018

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------|----------------|----------------|----------------|----------------|
| Assets | | | | |
| Pooled fund | \$ - | \$ 126,419,604 | \$ - | \$ 126,419,604 |

There were no transfers between the three levels between December 31, 2017 and December 31, 2018.

Financial assets at fair value as at December 31, 2017

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------|----------------|----------------|----------------|----------------|
| Assets | | | | |
| Pooled fund | \$ - | \$ 119,713,036 | \$ - | \$ 119,713,036 |

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

There were no transfers between the three levels between December 31, 2016 and December 31, 2017.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2018

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.