



Financial Statements

Halifax Regional Water Commission

Employees' Pension Plan

December 31, 2022

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Independent Auditor's report

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

Grant Thornton LLP
Nova Centre, North Tower
Suite 1000, 1675 Grafton Street
Halifax, NS
B3J 0E9
T +1 902 421 1734
F +1 902 420 1068

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, 2022, 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, 2022, 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 22, 2023

Chartered Professional Accountants

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

December 31	2022	2021
Assets		
Investment assets	\$ 175,005,842	\$ 174,426,797
Contributions receivable	<u>264,544</u>	<u>269,675</u>
	175,270,386	174,696,472
Liabilities		
Payables and accruals		
Trade	<u>30,383</u>	<u>60,109</u>
Net assets available for benefits (Note 4)	175,240,003	174,636,363
Pension obligations	<u>154,048,139</u>	<u>144,611,949</u>
Surplus	<u>\$ 21,191,864</u>	<u>\$ 30,024,414</u>

On behalf of the Board of Trustees

 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	2022	2021
Revenue		
Net investment income (Note 6)	\$ 2,918,862	\$ 3,356,629
Changes in the fair value of investment assets	<u>(2,763,692)</u>	<u>15,414,684</u>
	<u>155,170</u>	<u>18,771,313</u>
Contributions (Note 7)		
Participants	3,375,425	3,391,324
Sponsor	<u>3,277,595</u>	<u>3,301,346</u>
	<u>6,653,020</u>	<u>6,692,670</u>
Expenses		
Benefit payments (Note 8)	5,999,210	5,587,527
Administrative (Note 9)	<u>205,340</u>	<u>196,250</u>
	<u>6,204,550</u>	<u>5,783,777</u>
Increase in net assets available for benefits	<u>\$ 603,640</u>	<u>\$ 19,680,206</u>
<hr/>		
Net assets available for benefits, beginning of year	\$ 174,636,363	\$ 154,956,157
Increase in net assets available for benefits	<u>603,640</u>	<u>19,680,206</u>
Net assets available for benefits, end of year	<u>\$ 175,240,003</u>	<u>\$ 174,636,363</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	2022	2021
Pension obligations, beginning of year	<u>\$ 144,611,949</u>	<u>\$ 141,762,849</u>
Change in pension obligations		
Changes in actuarial assumptions (Note 5)	613,700	(4,242,900)
Miscellaneous sources of decrease	-	(2,220,173)
Interest accrued on benefits	8,592,800	8,252,800
Benefits accrued	6,228,900	6,646,900
Benefits paid (Note 8)	<u>(5,999,210)</u>	<u>(5,587,527)</u>
	<u>9,436,190</u>	<u>2,849,100</u>
Pension obligations, end of year	<u>\$ 154,048,139</u>	<u>\$ 144,611,949</u>

See accompanying notes to the financial statements.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2022

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, 2021 as amended and consolidated.

(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.

(b) Funding policy

Employees' required contributions in 2022 were 9.60% (2021 - 10.34%) of pensionable earnings with the Halifax Regional Water Commission matching employee contributions. Basic contributions from employers and members due to the Plan at the end of the year are recorded on an accrual basis. Pensionable earnings are capped temporarily to a maximum of \$140,945 to December 31, 2023 and will be indexed at a rate of 1% per annum thereafter.

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).

Nova Scotia funding regulations require a "Provision for Adverse Deviation" (PfAD), which is an explicit level of conservatism added to the going concern liabilities of the Plan. The PfAD is based on the riskiness of the asset mix of the Plan, and for the actuarial valuation of January 1, 2022, the PfAD is reported at 7%. As a result, total liabilities are required to be increased 7% in the determination of the Plan's surplus (funded liability/deficit) position. (Note 5).

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2022

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. For 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 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, 2022

1. Description of the Plan (continued)

(f) Termination of employment

Subject to any statutory limitations, 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.

(i) Surplus

Where the Plan is continuing and there is a surplus resulting from an actuarial review, the Halifax Regional Water Commission may decide how the surplus is to be treated. However, no amounts can be paid out of the fund to the employer without prior approval of the Superintendent of Pensions. This was reinforced with Memorandums of Understanding between the Halifax Regional Water Commission and each of the union groups, November 14, 2007, whereby the Halifax Regional Water Commission had to assume responsibility to fund any unfunded liability and/or solvency deficiency arising under the Plan, as required by the Pension Benefits Act of Nova Scotia. Subsequently, special payments required to fund any unfunded liability resulting from an actuarial review, were deposited into a separate fund, to track the unique nature of these contributions into the Plan. As at December 31, 2022, the balance of this fund totals \$30,952,000, consisting of contributions in the amount of \$15,289,000 and investment income/gains (net of expenses) totalling \$15,663,000.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2022

1. Description of the Plan (continued)

(i) Surplus (continued)

Pursuant to the Memorandums of Understanding (Pensions) between the Halifax Regional Water Commission and each of the two union groups dated June 7, 2019, indexing of pensions to a maximum of 2% would be reinstated once the going concern special payments made by the Halifax Regional Water Commission, and subject to the Plan:

- Having a going concern funded ratio of 108% (or above);
- No solvency deficit; and
- So long as the implementation can be affected while maintaining a going concern funded ratio of 108%.

A surplus resulting from the wind-up of the Plan will be used to increase the benefits to the living Members of the Plan (including pensioners) and their beneficiaries to the extent permitted by the Income Tax Act and Regulations. Any balance remaining will be returned to the Halifax Regional Water Commission, however no amounts can be paid out of the fund to the employer without prior approval of the Superintendent of Pensions.

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:

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2022

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

(a) Financial Instruments (continued)

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.

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.

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2022

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

(e) Contributions

Required employee and employer contributions are recorded the month following when the payroll deductions are made. Employee and employer contributions and 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.

(g) Estimation uncertainty

When preparing the financial statements, management undertakes a number of judgements, 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 \$154,048,139 (2021 - \$144,611,949) 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, 2022

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 6.56% (December 31, 2021 - 6.50%) of the HRM Master Trust units. The remaining units are held by the Halifax Regional Municipality Pension Plan. 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 (Note 11).

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.

Investment	Asset Class	Market Value
Wellington Management Global Total Return Fund	Foreign Bonds	\$ 8,105,611
BlackRock Canadian World Index Fund	Global Equities	\$ 7,860,021
BlackRock Alpha Advantage Global Fund	Global Equities	\$ 7,243,410
BlackRock Active Canadian Equity Fund	Canadian Equities	\$ 6,310,557
UBS (UK) Real Estate Funds Selection Global Ex Canada, L.P.	Real Estate - Limited Partnership	\$ 4,835,982
Mawer International Equity Pooled Fund	International Equities	\$ 4,785,884
Marathon International Equity Fund	International Equities	\$ 4,106,884
Minto Multi-Residential Income Partners I, L.P.	Real Estate - Limited Partnership	\$ 4,092,479
		\$ 47,340,829

4. Net assets available for benefits 2022 2021

Allocation of net assets available for benefits

To pension plan	\$ 174,333,194	\$ 173,777,663
To extra voluntary contribution benefits	638,584	589,577
To individual locked in amounts	<u>268,225</u>	<u>269,123</u>
	<u>\$ 175,240,003</u>	<u>\$ 174,636,363</u>

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2022

5. Pension obligations

An actuarial valuation of The Plan was performed as at January 1, 2022 by Eckler Ltd.

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 6.35% per annum (2019 - 5.80%);
- c) salary scale assumption of 3.90% per annum (2019 - 3.90%); and
- d) life expectancy of participants based upon the CPM-2014 Combined mortality table, with Scale CPM-B (post retirement), no mortality in pre-retirement.

The 2019 interest rate assumption of 5.80% referenced above included an implicit margin for conservatism of 0.60% as determined by the Plan. As a result of the new funding Regulations effective April 1, 2020, the Plan's implicit margin for conservatism has been removed for the actuarial valuation of January 1, 2022, as an explicit level of conservatism has been added through legislation (Note 1).

As a result of the January 1, 2022 actuarial valuation, special payments in respect of going concern liabilities are not required. The next actuarial valuation for the Plan is required to be performed no later than January 1, 2025.

6. Net investment income

	<u>2022</u>	<u>2021</u>
Income from investment funds	\$ 3,307,029	\$ 3,657,805
Investment manager fees	<u>(388,167)</u>	<u>(301,176)</u>
	<u>\$ 2,918,862</u>	<u>\$ 3,356,629</u>

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

December 31, 2022

7. Contributions	<u>2022</u>	<u>2021</u>
Participants' contributions		
Required	\$ 3,276,762	\$ 3,301,346
Voluntary	<u>98,663</u>	<u>89,978</u>
	<u>3,375,425</u>	<u>\$ 3,391,324</u>
Sponsor's contributions		
Required	<u>\$ 3,277,595</u>	<u>\$ 3,301,346</u>

8. Benefit payments	<u>2022</u>	<u>2021</u>
Retirement benefit payments	\$ 5,089,704	\$ 4,739,794
Termination benefit payments	909,506	783,885
Death benefit payment	<u>-</u>	<u>63,848</u>
	<u>\$ 5,999,210</u>	<u>\$ 5,587,527</u>

During 2022, there were 16 termination benefit payments (2021 - 13) and 0 death benefit payments (2021 - 1). Termination benefits are paid out as described in Note 1(f).

9. Administrative expenses	<u>2022</u>	<u>2021</u>
Actuarial and consulting fees	\$ 99,522	\$ 83,773
Audit and accounting fees	9,446	10,027
Bank custodian fees	20,941	27,576
Insurance	10,600	10,600
Miscellaneous	21,449	18,083
Professional fees	40,534	43,529
Registration fees	<u>2,848</u>	<u>2,662</u>
	<u>\$ 205,340</u>	<u>\$ 196,250</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, 2022

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 set formal policies and operating procedures that establish an asset mix among equity, fixed income investments, public market alternatives, private debt, private equity, real estate and infrastructure that require 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 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 the instruments, which total \$175,005,842 at December 31, 2022 (2021 - \$174,426,797). A one percent change (1%) in market risk (holding all variables constant) will impact the fair value of these instruments by approximately \$1,750,000 (2021 - \$1,744,000).

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2022

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, 2022:

	<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>\$ 30,383</u>	<u>\$ 30,383</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Payments due year ending December 31, 2021

	<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>\$ 60,109</u>	<u>\$ 60,109</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2022

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, 2022

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Pooled fund	\$ -	\$ 175,005,842	\$ -	\$ 175,005,842

Financial assets at fair value as at December 31, 2021

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Pooled fund	\$ -	\$ 174,426,797	\$ -	\$ 174,426,797

There were no transfers between the three levels between December 31, 2021 and December 31, 2022.

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

Halifax Regional Water Commission

Employees' Pension Plan

Notes to the financial statements

December 31, 2022

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 in 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.