

**THE SASKATCHEWAN RESEARCH COUNCIL  
EMPLOYEES' PENSION PLAN**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2014**



## INDEPENDENT AUDITOR'S REPORT

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the Saskatchewan Research Council Employees' Pension Plan, which comprise the statement of financial position as at December 31, 2014, and the statements of changes in net assets available for benefits, and changes in accrued 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 for Treasury Board's approval, 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*

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### *Opinion*

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2014 and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Regina, Saskatchewan  
March 26, 2015

Judy Ferguson, FCPA, FCA  
Acting Provincial Auditor

**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN**  
**STATEMENT OF FINANCIAL POSITION**

**As at December 31**  
(thousands of dollars)

	<b>2014</b>			<b>2013</b>		
	Defined Benefit	Defined Contribution	Total	Defined Benefit	Defined Contribution	Total
<b>ASSETS</b>						
Segregated fund (Note 4)	\$ 1,212	\$ 19,754	\$ 20,966	\$ 1,270	\$ 21,551	\$ 22,821
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	-	-	-	-	-	-
Net assets available for benefits (Statement 2)	\$ 1,212	\$ 19,754	\$ 20,966	\$ 1,270	\$ 21,551	\$ 22,821
<b>ACCRUED OBLIGATIONS</b> (Statement 3)	1,226	19,754	20,980	1,241	21,551	22,792
<b>(Deficit) Surplus</b>	\$ (14)	\$ -	\$ (14)	\$ 29	\$ -	\$ 29

(See accompanying notes to the financial statements)

**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN**  
**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**

**For the year ended December 31**

(thousands of dollars)

	<b>2014</b>			<b>2013</b>		
	Defined Benefit	Defined Contribution	Total	Defined Benefit	Defined Contribution	Total
<b>INCREASE IN ASSETS</b>						
Current period change in value of investments	\$ 130	\$ 2,073	\$ 2,203	\$ 181	\$ 2,531	\$ 2,712
Contributions	<u>-</u>	<u>1,145</u>	<u>1,145</u>	<u>-</u>	<u>1,309</u>	<u>1,309</u>
Total increase in assets	<u>\$ 130</u>	<u>\$ 3,218</u>	<u>\$ 3,348</u>	<u>\$ 181</u>	<u>\$ 3,840</u>	<u>\$ 4,021</u>
<b>DECREASE IN ASSETS</b>						
Refunds and transfers	\$ -	\$ 5,015	\$ 5,015	\$ -	\$ 2,866	\$ 2,866
Retirement benefits	<u>188</u>	<u>-</u>	<u>188</u>	<u>195</u>	<u>-</u>	<u>195</u>
Total decrease in assets	<u>\$ 188</u>	<u>\$ 5,015</u>	<u>\$ 5,203</u>	<u>\$ 195</u>	<u>\$ 2,866</u>	<u>\$ 3,061</u>
(Decrease) increase in net assets	\$ (58)	\$ (1,797)	\$ (1,855)	\$ (14)	\$ 974	\$ 960
Net assets available for benefits, beginning of year	<u>1,270</u>	<u>21,551</u>	<u>22,821</u>	<u>1,284</u>	<u>20,577</u>	<u>21,861</u>
Net assets available for benefits, end of year (Statement 1)	<u>\$ 1,212</u>	<u>\$ 19,754</u>	<u>\$ 20,966</u>	<u>\$ 1,270</u>	<u>\$ 21,551</u>	<u>\$ 22,821</u>

(See accompanying notes to the financial statements)

**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN**  
**STATEMENT OF CHANGES IN ACCRUED PENSION OBLIGATIONS**

**For the year ended December 31**

(thousands of dollars)

	<u>2014</u>	<u>2013</u>
	Defined Benefit (Note 6)	Defined Benefit (Note 6)
<b>Accrued pension obligations, beginning of year</b>	\$ 1,241	\$ 1,389
<b>Increase in accrued pension obligations</b>		
Interest on accrued benefits	\$ 45	\$ 43
Pension benefit increases (Note 1(e))	12	10
Change in mortality assumption	48	35
Experience losses (Note 6)	68	-
	<u>\$ 173</u>	<u>\$ 88</u>
<b>Decrease in accrued pension obligations</b>		
Benefits paid	\$ 188	\$ 195
Experience gains (Note 6)	-	41
	<u>\$ 188</u>	<u>\$ 236</u>
<b>Accrued pension obligations, end of year (Statement 1)</b>	<u><u>\$ 1,226</u></u>	<u><u>\$ 1,241</u></u>

(See accompanying notes to the financial statements)

**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2014**

**1. Description of the Plan**

The following description of the Plan is a summary only. For more complete information, reference should be made to the Plan Agreement. The Plan is administered by the Saskatchewan Research Council (SRC). The Pension Plan Advisory Committee (PAC) promotes awareness and understanding of the Plan, periodically reviews the results of the Plan, and discusses with SRC and Plan members matters of concern to the members. The PAC is comprised of a maximum of five members.

**(a) General**

The Saskatchewan Research Council Employees' Pension Plan was established May 1, 1974 for the purpose of providing retirement income to SRC's employees. SRC's head office is located at 125-15 Innovation Blvd. Saskatoon, Saskatchewan.

Up to and including December 31, 1990, the Plan provided the greater of a defined benefit or a defined contribution entitlement for members of the Plan. Effective January 1, 1991, the Plan was amended and restated to provide solely a defined contribution benefit to members. The changes did not affect existing pensioners who will continue to receive benefits as granted.

**(b) Funding Policy**

For the defined contribution portion, the employer contributes 4.875% of the member's earnings up to the Year's Maximum Pensionable Earnings (YMPE) and 7.5% of the member's earnings above the YMPE, as defined under the Canada Pension Plan, on a monthly basis. Under the terms of the Plan, members are neither required nor permitted to make contributions to the Plan.

**(c) Retirement**

Upon retirement, a transfer is available based on the member's accumulated balance to another pension plan, a Locked-In Retirement Account Contract, a Prescribed Registered Retirement Income Fund or to purchase a life annuity contract.

**(d) Termination Refunds**

Upon application and subject to lock-in provisions, termination refunds are payable when a member ceases to be employed by SRC.

**(e) Defined Benefit Pensioners**

Pensioners receive benefit increases effective April 1st of each year based on CPI increases to the extent investment earnings exceed 6% in the

**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2014**

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

previous calendar year. Based on the Plan rate of return, the pensioners will receive an automatic increase of 1.47% on April 1, 2015. The last increase of 1.24% was effective April 1, 2014.

The SRC Board of Directors passed a resolution, such that in a year where indexing of pension benefits, as established under the Plan, does not provide for an automatic increase, or where the automatic increase is less than the maximum permitted, the Board will review the status of the pension plan and may provide for an ad hoc increase.

**2. Summary of Accounting Policies**

**(a) Basis of Presentation**

The financial statements for the year ended December 31, 2014 have been prepared in accordance with Canadian accounting standards for pension plans as outlined in the CPA Handbook Section 4600, Pension Plans. For matters not addressed in Section 4600, International Financial Reporting Standards (IFRS) are followed. These financial statements are presented in the Plan's functional currency, Canadian Dollars. The financial statements were authorized and issued by the Board of Directors of SRC on March 26, 2015.

**(b) Use of Estimates and Judgments**

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. Differences are reflected in current operations when identified.

Significant estimates included in the financial statements relate to the determination of the accrued defined pension obligations.



**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2014**

**2. Summary of Accounting Policies (*continued*)**

**(c) Investments**

Investments are held for trading and stated at fair value. Fair value is determined on the market value of the Plan units in the segregated fund. The market value per unit is the market value of the investments in the segregated fund's portfolio divided by the total number of outstanding units in that fund. The change in the market value of the units is shown as an increase or decrease in net assets available for benefits.

Additional units are acquired when distributions are made by the fund. Cash dividends are not paid by the fund; however, investors can realize changes in the underlying unit values by redeeming units.

**(d) Other Assets and Liabilities**

Accounts payable and accrued liabilities are measured at cost and are short-term in nature and as such their carrying value approximates fair value.

**(e) Future Accounting Changes**

A number of new standards, amendments to standards and interpretations, are not yet in effect for the year ended December 31, 2014, and have not been applied in preparing these financial statements. In particular, IFRS 9, Financial Instruments, for which the effective date of adoption has not been determined. The extent of the impact of adoption of this standard is not expected to be material.

**3. Objectives, Policies, and Processes for Managing Capital**

The Plan's Investment Policy (Policy) provides a framework for the prudent investment and administration of the Pension Fund for the purpose of managing capital.

The objectives of the Policy are to ensure that the Plan has sufficient assets to meet its future pension obligations and to generate sufficient cash flows to meet the required pension payments as they come due. The Policy is also designed to minimize interest rate risk and credit risk by ensuring that Plan assets are invested systematically in a diversified portfolio of Canadian and foreign equities and bonds, within the parameters prescribed under *The Income Tax Act* and *The Pensions Benefits Act, 1992*. Due to the long-term nature of the pension



**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2014**

**3. Objectives, Policies, and Processes for Managing Capital (*continued*)**

obligations and related cash flows, investment mix guidelines consider differences in the interest rate sensitivity of the Plan's assets and liabilities. The Policy is re-visited annually to ensure it is meeting the objectives of the Plan.

The process for managing capital is accomplished by diversifying asset classes and further diversifying within each individual asset class.

The Plan's permissible investments include Canadian equities, U.S. and international equities, bonds, short term securities and pool real estate funds. Other types of investments are not permitted without prior approval of the Board.

**4. Segregated Fund**

The investments consist of units in segregated funds held by London Life Investment Management Ltd:

Description	2014 Amount (\$000's)	2013 Amount (\$000's)
Balanced Global – Beutel, Goodman	\$7,520	\$9,090
Balanced Index – Great West Life Index	5,612	7,045
BlackRock LifePath Retirement	6,582	5,463
Money Market - Portico	712	680
Pure Canadian Equity – Beutel Goodman	204	188
International Opportunity – JP Morgan	168	171
Canadian Equity Index – TD Asset Management	144	125
U.S. Equity Index – TD Asset Management	10	34
International Equity Index – TD Asset Management	9	19
Bond – Phillips, Hager & North (PH&N)	5	4
3 Year Compound Interest Account	-	2
	\$20,966	\$22,821

**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2014**

**4. Segregated Fund (*continued*)**

The Funds have no fixed interest rate and returns are based on the performance of the funds. The fair value of the investments is considered to be the market value, the calculation of which is described in Note 2 (c).

The value of the Plan's assets is affected by short-term changes in nominal interest rates, foreign currency and equity markets.

Investments at fair value are categorized into one of three hierarchy levels, described below for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities.

Level 1 – Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 – Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The following table presents SRC's fair value hierarchy for those assets and liabilities measured at fair value.

<b>Level</b>	<b>Description</b>	<b>2014 Amount (\$000's)</b>	<b>2013 Amount (\$000's)</b>
Level 1	Publicly Traded Equities	\$13,211	\$14,565
Level 2	Fixed Income Securities	6,538	6,948
Level 3	Money Market Fund	1,203	1,291
	Pooled Fund – Real Estate	14	17
		<b>\$20,966</b>	<b>\$22,821</b>

Significant financial risks are related to the Plan's investments. These financial risks are managed through the establishment of the Investment Policy described in Note 3. SRC reviews the investment manager's institutional report on internal controls to ensure Investment Policy compliance controls are adequate on an annual basis and obtains quarterly attestation of the investment manager's compliance with the Plan's Investment Policy.

**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2014**

**4. Segregated Fund (*continued*)**

**Credit Risk**

Credit risk arises from the potential for security issuers to default on their contractual obligations to the Plan. The Plan limits credit risk by setting investment restrictions within the Investment Policy and by dealing with issuers that are considered to be high quality.

**Market Price Risk**

The Plan invests in publicly traded equities and bonds available on domestic and foreign exchanges through the segregated fund. These securities are affected by market changes and fluctuations. The value of investments can be affected by changes in interest rates, foreign exchange rates, and equity prices. To manage these risks, the Plan's Investment Policy strategically distributes investments among several classes of assets to reduce exposure to investment volatility. The Plan's Investment Policy also defines the minimum quality rating for new investments.

**Interest Rate Risk**

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities. The value of some of the Plan's assets is affected by changes in nominal interest rates and equity markets.

The Plan manages interest rate risk by establishing a target asset mix that provides for a mix of interest-sensitive investments and investments subject to other risks. Interest-sensitive investments are actively managed to mitigate or take advantage of changes in interest rates.

The Plan held approximately 31.1% (2013 – 30.5%) of its investments in fixed income securities at December 31, 2014 and 5.7% (2013 – 5.7%) of its investments in Canadian Money Market Funds at December 31, 2014.

The following table indicates the approximate change that a 100 basis point change in interest rates could have on net assets available for benefits and surplus as at December 31, 2014:

<b>Description</b>	<b>1% Increase (\$000's)</b>	<b>1% Decrease (\$000's)</b>
Fixed Income Securities	\$65	\$(65)
Canadian Money Market Fund	12	(12)

**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2014**

**4. Segregated Fund (*continued*)**

**Foreign Currency Risk**

The Plan is exposed to currency risk through holding of foreign equities and foreign pay bonds where investment values may fluctuate due to changes in foreign exchange rates. The Plan manages foreign currency risk by limiting investment in foreign securities in accordance with the Plan's Investment Policy and by investing in securities that are strategically distributed over several geographic areas to limit exposure to any one foreign currency.

At December 31, 2014, a 10% change in the Canadian dollar versus the foreign currency investments currently held would result in approximately a \$723,000 change in net assets available for benefits.

**Equity Price Risk**

Equity price risk is the risk that the value of an equity will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issue or all other factors affecting all instruments traded in the market.

The Plan manages equity price risk by limiting the amount invested in equity holdings in accordance with the Plan's Investment Policy. The Plan held approximately 63.0% (2013 – 63.8%) of its investments in equities at December 31, 2014. Of the total Plan investments, Canadian equities comprise 28.5% (2013 – 30.1%), and global equities comprise 34.5% (2013 – 33.7%).

The following table indicates the approximate change that could be anticipated to both the increase in net assets available for benefits and surplus based on a 100 basis point change in the market value of the Plan's investments at December 31, 2014:

<b>Description</b>	<b>1% Increase (\$000's)</b>	<b>1% Decrease (\$000's)</b>
Canadian Equity Funds	\$60	\$(60)
Foreign Equity Funds	72	(72)

**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2014**

**4. Segregated Fund (*continued*)**

**Liquidity Risk**

Liquidity risk is the risk that the Plan will not be able to meet its obligations as they come due. The Plan maintains an asset mix, in accordance with the Plan's Investment Policy, which helps to ensure the Plan is able to liquidate investments to meet its pension benefits or other obligations.

**5. Investment Performance**

The investment manager makes day-to-day decisions in accordance with the Investment Policy on whether to buy or sell investments to achieve the long-term performance objectives set by SRC and the PAC. SRC and the PAC review the investment performance of the Plan in terms of the performance of the benchmark portfolio.

Results for the year ended December 31, 2014 compared to the benchmark are as follows:

<b>Description</b>	<b>December 31, 2014</b>	
	<b>Benchmark Return</b>	<b>Annualized Gross Return</b>
Balanced Global – Beutel, Goodman	10.10%	9.23%
Balanced Index – Great West Life Index	11.13%	11.20%
BlackRock LifePath Retirement	12.91%	12.85%
Money Market - Portico	0.91%	1.12%
Pure Canadian Equity – Beutel Goodman	10.55%	11.67%
International Opportunity – JP Morgan	4.58%	4.75%
Canadian Equity Index – TD Asset Management	10.55%	10.56%
U.S. Equity Index – TD Asset Management	23.18%	24.09%
International Equity Index – TD Asset Management	3.67%	3.78%
Bond – Phillips, Hager & North (PH&N)	8.79%	9.25%

The rates of return are provided by London Life Investment Management Ltd. based on the performance of the funds.

**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2014**

**6. Obligations for Pension Benefits**

The present value of the defined benefit obligations was determined using the projected benefits method prorated on service and management's best estimate assumptions.

Mercer performed an actuarial valuation as at December 31, 2014 and December 31, 2013. The Plan is required to file the next actuarial valuation as at December 31, 2016.

The pension obligations are based on a number of assumptions about future events including interest rates, mortality and inflation. Actual rates may vary significantly from the long-term assumptions used.

Investment earnings in excess of 6% will be applied to provide increases to all defined benefit pensioners in receipt of benefits, which are paid from the pension fund. The significant long-term assumptions used in determining the actuarial value of accrued pension benefits are as follows:

1. Interest rate    3.2%
2. Assumptions regarding mortality rates are based on published statistics and mortality tables. The mortality tables used in 2014 for the Plan was the Canadian Pensioner Mortality B Experience RPP2014 public sector mortality table (2013 – Canadian Pensioner Mortality A Experience RPP2014 public sector mortality table).
3. Post retirement indexing is 0%

A 1% increase in the interest rate assumption would result in a \$57,000 decrease to the pension liability. A 1% decrease in the interest rate assumption would result in a \$61,000 increase to the pension liability.

The experience losses in 2014 are the result of the Plan experiencing lower mortality rates during the year than those projected by the mortality table used by the actuary.

Upon termination of the defined benefit portion of the Plan, any balance remaining, after discharging all liabilities, shall belong to SRC. The balance may be distributed in a manner to be determined by SRC, at its sole discretion, after receiving prior approval in accordance with *The Pension Benefits Act, 1992*, the *Income Tax Act (Canada)* and the regulations thereunder.

The pension obligations are long-term in nature. The Plan has no intention of settling its pension obligations in the near term and there is no market for settling pension obligations. Therefore, determination of the fair value of the pension liability is not practicable.

**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2014**

**7. Solvency Deficit/Surplus**

The Plan is registered with the Saskatchewan Superintendent of Pensions (Superintendent) and is required to comply with *The Pension Benefits Act, 1992* (Act). The Act requires the Plan to obtain, every three years, an actuarial valuation that outlines its funding position and solvency position. The funding position outlines whether the Plan has sufficient assets and future contributions to pay the benefits agreed to under the Plan. The solvency position outlines if the Plan has sufficient assets to windup the Plan at the valuation date. If the funding and solvency positions are deficits, the Act outlines how the deficits are to be paid. The actuarial valuation for funding and solvency purposes prepared by Mercer as at December 31, 2013 was filed with the Superintendent. The 2014 valuation disclosed a solvency deficit of \$20,000 (2013 - \$63,000 surplus) and a funding surplus of \$53,000 (2013 - \$104,000 surplus).

**8. Related Party Transactions**

SRC provides general administrative services without charge.

**9. Administration**

Administration costs may be paid out of the Plan assets as provided for in the Plan text. Since the Plan was in a deficit position at January 1, 2003, the Board of Directors concurred with management's recommendation that SRC would not be reimbursed for administration costs until such time as a sufficient surplus exists. The Board has not revised its decision of 2003 and no administration costs were reimbursed in 2014 or 2013.