Financial Statements of

HEALTHCARE EMPLOYEES' PENSION PLAN - MANITOBA, COST OF LIVING ADJUSTMENT PLAN

Year ended December 31, 2014

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the Healthcare Employees' Pension Plan - Manitoba, Cost of Living Adjustment Plan

We have audited the accompanying financial statements of Healthcare Employees' Pension Plan - Manitoba, Cost of Living Adjustment Plan, which comprise the statement of financial position as at December 31, 2014, the statement of changes in net assets available for benefits for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Healthcare Employees' Pension Plan - Manitoba, Cost of Living Adjustment Plan as at December 31, 2014, and changes in its net assets available for benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Accountants

June 16, 2015

Winnipeg, Canada

HEALTHCARE EMPLOYEES' PENSION PLAN - MANITOBA, COST OF LIVING ADJUSTMENT PLAN

Statement of Financial Position

December 31, 2014

	Active Employees Fund	Past Retirees Fund	Total
Assets			
Cash	$ 1,354,340	$ –	$ 1,354,340
Contributions receivable:			
Employer	1,070,413	–	1,070,413
Employee	1,070,301	–	1,070,301
Other receivables (note 9)	623,694	68	623,762
Inter-fund balances	902,672	(902,672)	–
Short-term investments	16,032,630	–	16,032,630
Capital assets (note 4)	260,821	260,821	521,642
Total assets	$ 21,314,871	$ (641,783)	$ 20,673,088
Liabilities			
Accounts payable and accrued liabilities	$ 15,968	$ 14,974	$ 30,942
Commitment (note 10)			
Net assets available for benefits	$ 21,298,903	$ (656,757)	$ 20,642,146

See accompanying notes to financial statements.

Approved by the Trustees:

____________________________ Chair

____________________________ Vice-Chair

HEALTHCARE EMPLOYEES' PENSION PLAN - MANITOBA, COST OF LIVING ADJUSTMENT PLAN

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2014 (note 1)

	Active Employees Fund	Past Retirees Fund	Total
Increase in net assets:			
Pension fund contributions:			
Employer	$ 10,964,251	$ –	$ 10,964,251
Employee	10,950,997	–	10,950,997
Short-term investment income	48,084	–	48,084
Total increase in net assets	21,963,332	–	21,963,332
Decrease in net assets:			
Administrative expenses (note 5)	657,916	656,757	1,314,673
Current period change in fair value of investments	6,513	–	6,513
Total decrease in net assets	664,429	656,757	1,321,186
Net assets available for benefits, end of period	$ 21,298,903	$ (656,757)	$ 20,642,146

See accompanying notes to financial statements.

1. General:

Healthcare Employees' Pension Plan - Manitoba, Cost of Living Adjustment (COLA) Plan (the Plan) is governed by a Board of Trustees appointed by signatory employers and unions through a Trust Agreement dated December 12, 2013. The Plan was created pursuant to a June 10, 2010 letter of understanding between the signatory employers and unions, which provided for monies to be contributed to the Active Employees Fund and the Past Retirees Fund (collectively, the Plan) and such monies to be dedicated for the specific purpose of providing ad hoc cost of living adjustments to benefits payable under the Healthcare Employees' Pension Plan - Manitoba (HEPP) to retired members who participated in HEPP as a result of their employment. Contributions from members for the Active Employees Fund commenced on April 1, 2014. Contribution from members for the Past Retirees Fund will commence April 1, 2015.

The Plan is registered with Canada Revenue Agency (CRA) as a supplemental plan pursuant to the *Income Tax Act*. The Plan is not a pension plan as defined under the *Pension Benefits Act* (Manitoba), and therefore is not registered under or subject to any provisions of the *Pension Benefits Act* (Manitoba).

2. 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 Text.

(a) General:

The Plan is designated as a specified multi-employer pension plan under the *Income Tax Act* for all employees of participating healthcare facilities in the Province of Manitoba.

(b) Funding policy:

Employers and employees are required to contribute to the Plan a certain percentage of the members' earnings as established by the settlors of the Plan.

2. Description of the plan (continued):

The following contribution rate percentages have been approved for 2014 and 2015:

	Employer	Employee
April 1, 2014	0.8%	0.8%
April 1, 2015	1.0%	1.0%

Effective April 1, 2014 and continuing up to and including March 31, 2015, the Active Employees Fund will receive an allocation of 100% of the aggregate contributions. Effective on and after April 1, 2015, the Active Employees Fund and the Past Retirees Fund will receive an allocation of 90% and 10% of the aggregate contributions, respectively.

(c) COLA benefits:

COLA benefits will only be paid to members in receipt of a pension on the effective date of each determination by the Trustees to provide COLA benefits, and such COLA benefits will be calculated based on the value of such member's pension excluding any COLA previously granted. COLA benefits paid from the Active Employees Fund and the Past Retirees Fund will be made on an ad hoc basis to members in receipt of a pension at rates determined by the Trustees based on the financial position of each fund. COLA benefits will not be made before April 1, 2018; as a result, no pension obligation has been presented in the statement of financial position.

The COLA benefits provided in a calendar year to a pensioner may not exceed 66 2/3 percent of the increase in the Consumer Price Index for Canada (CPI), as reported by Statistics Canada, for the first month immediately preceding the month in which the Trustees decide to grant COLA benefits for which Statistics Canada has issued a report, compared to the same month in the prior calendar year. In the event that the Trustees grant more than one COLA benefit in a calendar year, the total of all COLA benefits for the calendar year shall not exceed 66 2/3 percent of the increase in the CPI determined as of the month used to determine the CPI limit for the first COLA benefit granted for that calendar year.

(d) Death benefits:

Upon the death of a member, any COLA benefits previously extended to the member shall cease and the member's spouse, common-law partner, survivors, beneficiaries, dependents, or estate shall have no entitlement to any benefits under the Plan.

2. Description of the plan (continued):

(e) Benefits on termination:

A member who terminates Plan membership other than by reason of retirement and receives a lump sum payment under HEPP in lieu of a pension ceases to be a member and shall not be entitled to any benefit, including any COLA benefits, from the Plan.

A member who terminates Plan membership other than by reason of retirement and elects a deferred pension from HEPP may be entitled to COLA benefits upon or after retirement if they receive a pension in accordance with the terms and conditions of the Plan.

3. Significant accounting policies:

(a) Basis of presentation:

The Plan follows Canadian accounting standards for pension plans for accounting policies related to its investment portfolio. In selecting or changing accounting policies that do not relate to its investment portfolio, the Plan complies on a consistent basis with Canadian accounting standards for private enterprises (ASPE).

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity, independent of the participating employers and members. Only the net assets of the Plan have been included in these financial statements. These financial statements do not portray the funding requirements of the Plan or the benefit security of the individual plan members.

(b) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and investments are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Plan has elected not to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs. These costs are amortized using the straight-line method.

3. Significant accounting policies (continued):

(c) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The Plan uses closing market price for fair value measurement. When available, the Plan measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Plan establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

All changes in fair value, other than interest and dividend income, are recognized in the statement of changes in net assets available for benefits as part of the current period change in fair value of investments.

Fair values of investments are determined as follows:

Short-term investments:

Short-term investments consist of short-term pooled investment fund which is recorded at fair value established by the respective fund trustee.

(d) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated useful life of an asset are capitalized. When a capital asset no longer contributes to the Plan's ability to provide services, its carrying amount is written-down to its residual value. Capital assets, which comprise computer software, are amortized on a straight-line basis over three years.

3. Significant accounting policies (continued):

(e) Investment transactions and income recognition:

(i) Investment transactions:

Investment transactions are accounted for on a trade date basis.

(ii) Income recognition:

Investment income has been accrued as reported by the issuer of the short-term investment fund. Interest income has been accrued as earned.

(f) Contributions:

Contributions from the members are recorded on an accrual basis. Member reciprocal service contributions and transfers from the registered plan of a previous employer are not permitted.

(g) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets during the year. Significant items subject to such estimates and assumptions include the determination of the carrying value of capital assets. Actual results could differ from those estimates.

4. Capital assets:

	Cost	Accumulated amortization	Net book value
Computer software:			
Active Employees Fund	$ 391,232	$ 130,411	$ 260,821
Past Retirees Fund	391,231	130,410	260,821
	$ 782,463	$ 260,821	$ 521,642

5. Administrative expenses:

	Active Employees Fund	Past Retirees Fund	Total
Salaries and benefits	$ 231,427	$ 231,427	$ 462,854
Amortization of capital assets	130,411	130,410	260,821
Other administrative expenses	131,761	130,603	262,364
Actuarial fees	77,262	77,261	154,523
Legal fees	74,305	74,306	148,611
Audit fees	12,750	12,750	25,500
	$ 657,916	$ 656,757	$ 1,314,673

6. Capital risk management:

The main objective of the Plan is to sustain a certain level of net assets in order to meet the current and future obligations of the Plan. The Plan fulfils its primary objective by adhering to specific investment policies outlined in its Statement of Investment Policies and Procedures (the SIPP), which is reviewed annually by the Plan. The Plan manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employee and employer contributions) in accordance with the approved SIPP. Increases in net assets are a direct result of investment income generated by investments held by the Plan and contributions into the Plan by eligible employees and by the employers.

The primary risk the Plan faces is that the Plan’s asset growth and contribution rates will be insufficient to cover the Plan’s liabilities (funding risk) resulting in an unfunded liability (funding deficiency). If a funding deficiency reaches a certain level, or persists, it may need to be eliminated through contribution rate increases.

The Plan’s net funded position can change relatively quickly if there are changes in the value of the investments or liabilities. Either can result in a mismatch between the Plan’s assets and its liabilities. The most significant contributors to funding risk are:

- declining interest rates
- declining long-term investment rates of return

The Plan’s assets are subject to financial instrument risks which are explained in more detail in note 7 to these financial statements.

7. Risk management:

(a) Credit risk:

The Plan is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due or requested. The Plan's greatest concentration of credit risk is in its fixed income securities. The fair value of the fixed income securities includes consideration of the creditworthiness of the debt issuer. All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal, as payment is made on a purchase once the securities have been received from the broker. For sales transactions, the securities are released once the broker has made payment.

Credit risk associated with contributions and other receivables is minimized due to their nature. The majority of the receivable balances are due from member facilities and are collected from participating members through the payroll process. No provision for doubtful contributions and other receivables has been recorded in 2014. The carrying amounts of fixed income investments and contributions and other receivables represent the maximum credit exposure to the Plan.

(b) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

All of the Plan's investments are in liquid securities traded in public markets. The Plan's financial statement liabilities have contracted maturities of less than one year. The Plan also maintains cash on hand for liquidity purposes and to pay accounts payable and accrued liabilities. At December 31, 2014, the Plan had cash in the amount of $1.35 million.

(c) Other risks:

The Plan's investments are not exposed to significant interest rate, foreign currency or market price risk.

8. Fair value of financial instruments:

The determination of the fair value of investments is as described in note 3(c) with fair values of investments disclosed in the statement of financial position. The fair values of other financial assets and liabilities, being cash, contributions receivable, other receivables, accounts payable and accrued liabilities and other accounts payable, approximate their carrying values due to the short-term nature of these financial instruments.

The Plan's assets which are recorded at fair value are required to be classified into one of three levels, depending on the inputs used for valuation. The hierarchy of inputs is summarized below:

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

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

The following is a summary of the inputs used as of December 31, 2014 in valuing the Plan's investments:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Cash	$ 1,354,340	$ –	$ –	$ 1,354,340
Short-term investments	–	16,032,630	–	16,032,630
	$ 1,354,340	$ 16,032,630	$ –	$ 17,386,970

For the period ended December 31, 2014, there were no transfers between Level 1 and Level 2.

9. Related party:

The Plan, HEPP and Healthcare Employees' Benefits Plan - Manitoba (HEBP) have common trustees and a cost sharing agreement to allocate certain costs based on factors such as square footage, number of employees and time usage. In addition, certain costs with respect to the establishment of the Plan were incurred by HEPP which are to be reimbursed by the Plan. During the year, HEPP also collected contributions of active plan members and employers for COLA. Other receivables include a net amount of $623,626 due from HEPP at December 31, 2014. This includes a balance of $1,281,777 receivable related to contributions collected, net of a balance of $658,151 payable related to costs incurred. The balance due from HEPP is non-interest bearing, and have no fixed terms of repayment.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10. Commitment:

The Plan leases office space under various operating leases with varying expiry dates up to November 30, 2018. The Plan's allocation of annual lease payments to expiry is as follows:

2015	$	34,000
2016		34,000
2017		34,000
2018		1,000
	$	103,000