FINANCIAL STATEMENTS

The City of Saint John Shared Risk Plan

December 31, 2015

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Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
The City of Saint John Shared Risk Pension Plan

We have audited the accompanying financial statements of the Fund of The City of Saint John Shared Risk Pension Plan, which comprise the statement of net assets available for benefits as at December 31, 2015, and the statement of changes in net assets available for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on the financial reporting provisions of Section 9(9) of the New Brunswick Regulation 91-195 under the Pension Benefits Act (O.C.91-1060).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Section 9(9) of the New Brunswick Regulation 91-195 under the Pension Benefits Act (O.C.91-1060), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Administrator, 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 net assets available for benefits of the fund of The City of Saint John Shared Risk Pension Plan as at December 31, 2015 and the changes in net assets available for benefits for the year then ended in accordance with the financial reporting provisions of Section 9(9) of the New Brunswick Regulation 91-195 under the Pension Benefits Act (O.C.91-1060).

Basis of Accounting and Restrictions of Use

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Board of Trustees of The City of Saint John Shared Risk Pension Plan to meet the requirements of the Financial and Consumer Services Commission Office of the Superintendent of Pensions. As a result, the financial statements may not be suitable for another purpose.

Comparative Figures

The statement of net assets available for benefits as at December 31, 2014, and the statements of changes in net assets available for benefits for the year then ended were audited by another auditor who expressed an unqualified opinion on the report dated June 17, 2015.

Deloitte LLP

Chartered Professional Accountants
May 25, 2016

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As at December 31

	2015	2014
	$	$
Financial assets		
Investments, at fair value		
Bonds	**49,920,943**	35,572,882
Fixed income pooled funds	**190,044,247**	162,071,642
Stocks	**79,388,060**	118,902,389
Equity pooled funds	**128,043,717**	123,533,286
Real estate funds	**52,930,613**	50,227,344
	500,327,580	490,307,543
Cash, notes and short-term deposits [Note 3]	**5,634,430**	2,669,076
HST receivable	**37,639**	41,833
Due from the City of Saint John	**158,200**	641,050
Special funding due from the City of Saint John [Note 4]	**1,188,706**	1,165,626
Accrued interest and dividends	**545,670**	548,151
	507,892,225	495,373,279
Financial liabilities		
Accounts payable	**252,480**	626,087
Net assets available for benefits	**507,639,745**	494,747,192

See accompanying notes

On behalf of the Trustees:

Trustee

Trustee

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended December 31	2015	2014
	$	$
Increase in assets		
Contributions [Note 6]		
The City of Saint John	**18,349,337**	18,160,690
Employees	**6,338,380**	6,227,810
	24,687,717	24,388,500
Investment income [Note 7]		
Fixed income	**8,858,249**	6,248,582
Equity income	**4,927,347**	7,162,119
Foreign exchange gain (loss)	**109,546**	(195,083)
Other income	**205,308**	141,107
	14,100,450	13,356,725
Realized change in fair value of investments	**37,070,707**	38,276,602
Unrealized change in fair value of investments	**(22,205,467)**	2,868,311
Hedging loss realized	**(8,588,375)**	(1,900,241)
Hedging loss unrealized	**(1,454,705)**	(610,610)
	4,822,160	38,634,062
	43,610,327	76,379,287
Decrease in assets		
Pensions paid	**26,427,984**	25,105,800
Contributions and interest refunded to participants	**1,693,410**	3,067,756
Administrative expenses [Schedule]	**2,596,380**	2,885,101
	30,717,774	31,058,657
Net increase in net assets available for benefits	**12,892,553**	45,320,630
Net assets available for benefits, beginning of year	**494,747,192**	449,426,562
Net assets available for benefits, end of year	**507,639,745**	494,747,192

See accompanying notes

The City of Saint John Shared Risk Plan
Notes to Financial Statements
December 31, 2015

1. PLAN SUMMARY

The City of Saint John Pension Plan (Former CSJ Plan) was converted to The City of Saint John Shared Risk Plan (the "Plan") effective January 1, 2013. The purpose of the Plan is to provide secure benefits to members of the plan without an absolute guarantee but with a risk focused management approach delivering a high degree of certainty that Base Benefits can be met in the vast majority of potential future economic scenarios. As a Shared Risk Plan, all future cost of living adjustments for current and future retirees and other Ancillary Benefits under the Plan shall be provided only to the extent that funds are available for such benefits, as determined by the Board of Trustees in accordance with applicable laws and the plan's Funding Policy.

The assets of the Plan are held by RBC Dexia Investor Services which acts as custodian of the Plan. The assets of the Plan are managed by nine different investment managers who have discretionary investment authority within the investment mandates given to them by the Board of Trustees. The performance of the Plan relative to others is measured on a regular basis by API Asset Performance Inc.

Significant features of the Plan are as follows:

- For Service prior to January 1, 2013, the Plan provides for pensions on the defined benefit basis at the rate of 2% per year of service times the average of the three consecutive years of service having the highest salary. Upon conversion to shared risk, the targeted benefit basis for service earned after the conversion date is now 1.8% per year of service times the salary (excluding overtime pay) earned during the relevant year to a maximum salary of $128,383.

- For Service prior to January 1, 2013, the Plan provides indexing at the rate of 1% per year on the basis of service between January 1, 1975 and December 31, 1992 and at the rate of 2% after January 1, 1993. The shared risk pension plan extinguishes all accrued rights to automatic future indexing. These automatic adjustments have been replaced by contingent indexing as permitted by the Funding Policy.

- Under the shared risk model, initial required contributions are based on covered payroll (excluding overtime) and are 9% for employees, with the exception that the contributions are 12% for employees in International Association of Fire Fighters ("IAFF") and the Saint John Police Association ("SJPA"). The IAFF and SJPA rates are subject to approval from the Canada Revenue Agency under the *Income Tax Act*. Members in public safety occupations who accept a non-union position will have a one-time opportunity to elect to continue to contribute at the higher rate. The employer will make initial matching contributions of 11.4% and 15.2%, respectively, representing an average contribution rate of 13% of covered payroll. The initial contribution rates for both employee and employer may be subject to change as a result of the triggering mechanism and limitations imposed by the shared risk funding policy. Also, commencing April 1, 2013, the City of Saint John is required to make temporary contributions to the Shared Risk Pension Plan of 17% of earnings of all employees who are members of the Plan that will cease on March 31, 2028 or when the Plan achieves an open group funded ratio, as defined by the Pension Benefits Act, of 150%, if earlier, provided that such temporary contributions shall not cease before March 31, 2023, subject to the income tax act. If the Income Tax Act requires the cessation of the temporary contributions prior to March 31, 2023, once such contributions are again permissible under the Income Tax Act, they will re-commence until an equivalent of 10 years of such temporary contributions have been made in total.

- Under shared risk, the vesting date is defined as the earlier of five years of continuous employment with the employer or two years of membership in the Plan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with the significant accounting policies set out below to comply with the accounting requirements prescribed in Section 9(9) of the New Brunswick Regulation 91-195 under the Pension Benefits Act (O.C. 91-1060).

Section 4600, Pension Plans, of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook – Accounting is the underlying accounting standards to the framework prescribed by Section 9(9) the New Brunswick Regulation 91-195 under the Pension Benefits Act (O.C. 91-1060). Canadian accounting standards for private enterprise as set out in the CPA Handbook – Accounting has been chosen for accounting policies that do not relate to the Plan's investment portfolio, to the extent that those standards do not conflict with the requirements of Section 4600.

The pension plan financial report is prepared in accordance with the Canadian accounting standards for pension plans in Part IV of the CPA Canada Handbook – Accounting, except for items relating to pension obligations alone:

- the statement of financial position excludes pension obligations and any related surplus or deficit. Accordingly, this statement must be entitled "Statement of changes in net assets available for benefits";
- the statement of changes in pension obligations is not presented;
- disclosures about pension obligations are not presented.

Valuation of investment assets and liabilities

Investment assets and liabilities are stated at their fair values in the statement of net assets available for benefits. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. If the financial instrument has a quoted price in an active market, the quoted price is the fair value of the financial instrument. If the market for a financial instrument is not active, fair value is established by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, that technique is used. A valuation technique incorporates all factors that market participants would consider in setting a price. Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-specific inputs

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pooled fund and earnings

Certain of the Plan's investments are held via units of pooled funds. Income earned on these funds is retained within the fund and reflected as part of the current-period change in market values of investments.

Foreign currency translation

Investments denominated in United States ["US"] dollars are translated at the year-end rate of exchange. Foreign exchange gains and losses are included as a component of the current-period change in fair value of investments.

Hedging

The Plan utilizes currency hedges to offset market fluctuations in its investments denominated in US dollars. At year-end, the hedges are fair valued as an increase or decrease in the change in the fair value of investments.

Transaction costs

All transaction costs in respect of purchases and sales of investments are recorded as part of investment management expenses in the Statement of Changes in Net Assets Available for Benefits.

Contributions

Contributions due to the Plan are recorded on an accrual basis. Transfers to the Plan and purchases of prior service are recorded when cash is received.

Use of estimates and accounting judgments

Preparation of the financial statements requires management to make estimates and assumptions, based on the information available as at the date of the financial statements, which affect the reported values of assets and liabilities, and related income and expenses. Such estimates and assumptions affect primarily the fair value of investments. Actual results could differ from those presented.

3. CASH AND SHORT-TERM DEPOSITS

	2015	2014
	$	$
Cash	**3,268,213**	435,388
Notes (2015 – 0.48%-0.52% ; 2014 – 0.12% - 1.14%)	**214,950**	429,408
Short-Term Investment Fund (2015 - 0.21%; 2014 - 0.38%)	**2,151,267**	1,804,280
	5,634,430	2,669,076

4. SPECIAL FUNDING DUE FROM THE CITY OF SAINTJOHN

Commencing April 1, 2013, the City of Saint John is required to make temporary contributions to the Shared Risk Pension Plan of 17% of earnings of all employees who are members of the Plan that will cease on March 31, 2028 or when the Plan achieves an open group funded ratio, as defined by the Pension Benefits Act, of 150%, if earlier, provided that such temporary contributions shall not cease before March 31, 2023, subject to the income tax act. If the Income Tax Act requires the cessation of the temporary contributions prior to March 31, 2023, once such contributions are again permissible under the Income Tax Act, they will re-commence until an equivalent of 10 years of such temporary contributions have been made in total.

5. FINANCIAL INSTRUMENTS

The Plan’s financial instruments consist of cash and short-term notes, accounts receivable, temporary and long-term investments, accounts payable and amounts due from related parties.

All items except investments are recorded at amortized cost.

The Plan is subject to financial risks as a result of its investment activities. These risks include market risk, credit risk and liquidity risk. The Plan manages these financial risks in accordance with the *New Brunswick Pension Benefits Act*, applicable regulations, and the Plan’s investment policies and procedures.

The investments of the Plan are managed utilizing a balanced approach, where the Plan invests in bonds, stocks, pooled funds and real estate funds.

Market risk

Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market processes. In accordance with the Plan’s policies, the Plan manages market risk by investing in diversified investments and by utilizing fund performance managers.

Market risk consists of the following:

(a) Foreign currency risk

Foreign currency risk arises from investments that are denominated in foreign currencies. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value of investments. As at December 31, 2015, the Plan has equity investments denominated in foreign currencies through investments of pooled funds and direct equities.

The Plan utilizes currency hedges to minimize this risk to an approved percentage of these investments. As at December 31, 2015, the Plan has currency forward contracts to purchase $45,325,000 (2014 - $33,270,000) in US dollars at an average rate of 1.3729 (2014 – 1.1505).

5. FINANCIAL INSTRUMENTS (Continued)

The Plan's underlying currency exposure in Canadian dollars consists of the following:

	Fair value $	Impact of 1% absolute change in foreign exchange rates on net assets $
Foreign equities and pooled funds	118,383,914 (2014 – 115,852,501)	1,183,839 (2014 – 1,158,525)

23.7% (2014 – 23.6%) of the Plan's investment funds are invested in foreign securities.

(b) Interest rate risk

Interest rate risk refers to the effect on the fair value or future cash flows of an investment due to fluctuations in interest rates. The Plan's interest rate exposure arises from its investment in bonds and in fixed income pooled funds, where those funds have underlying investments in fixed income securities, which are all denominated in Canadian dollars.

(c) Price risk

Price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices other than those arising from foreign currency or interest rate risk, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. This applies to all of the Plan's investments.

The following table demonstrates the sensitivity of the Plan's net assets to a 1% absolute change in the fair value of investments which are exposed to price risk:

	$	Impact of 1% absolute change in fair value on net assets $
Total investments, at market	500,327,580 (2014 - 493,188,459)	5,003,275 (2014 - 4,931,884)

(d) 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 exposure to credit risk is limited to its investments in bonds and fixed income pooled funds where those funds have underlying investments in debt securities. 26.4% (2014 – 26%) of the Plan's investment funds are invested in debt securities.

5. FINANCIAL INSTRUMENTS (Continued)

(e) Liquidity risk

Liquidity risk is the risk of being unable to settle or meet commitments as they come due. These commitments include payment of the Plan's pension obligations. Liquidity risk is managed by ensuring that the Plan invests in high quality investments which can be easily disposed of in an active market.

(f) Fair value measurement risk

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the importance of the data used to perform each evaluation. The fair value hierarchy is made up of the following levels:
Level 1 – Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3 – Valuation techniques with significant unobservable market parameters.
The fair value hierarchy requires the use of observable data on the market each time such data exists. A financial instrument is classified at the lowest level of the hierarchy for which significant input has been considered in measuring fair value.

				December 31, 2015
	Level 1	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Bonds	49,920,943	-	-	49,920,943
Fixed income pooled funds	-	153,300,504	36,743,743	190,044,247
Stocks	79,388,060	-	-	79,388,060
Equity pooled funds	-	112,270,100	15,773,617	128,043,717
Real estate funds	-	-	52,930,613	52,930,613
Total	129,309,003	265,570,604	105,447,973	500,327,580

				December 31, 2014
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Bonds	35,572,882	-	-	35,572,882
Fixed income pooled funds	-	162,071,642	-	162,071,642
Stocks	118,902,389	-	-	118,902,389
Equity pooled funds	-	115,264,617	8,268,669	123,533,286
Real estate	-	-	50,227,344	50,227,344
Total	154,475,271	277,336,259	58,496,013	490,307,543

5. FINANCIAL INSTRUMENTS (Continued)

Level 3 Investment Reconciliation

	2015	2014
	$	$
Beginning fair value	58,496,013	55,293,171
Acquisitions	43,367,911	655,288
Realized gain (loss)	181,608	
Unrealized gain	3,402,441	2,547,554
Ending fair value	105,447,973	58,496,013

(i) Bonds
Bonds represent fixed rate debt issued by Governments and for-profit organizations. The fair value of these instruments is based on quoted bid prices in an active market, when available. When quoted market prices in an active market are not available, the fair value is based on a valuation technique, being the present value of the principal and interest receivable discounted at appropriate market interest rates.

(ii) Stocks
Quoted equities represent securities issued by entities that are traded on the TSX or other stock exchanges. Fair value is based on the quoted bid prices as at December 31, 2015.

(iii) Pooled funds
Pooled funds do not have a quoted price in active market. Fair value is based on net asset values, obtained from the managers of the funds, which are determined with reference to the fair value of the underlying listed investments of each fund.

(iv) Level 3 investments – fixed income pooled funds, equity pooled funds, real estate funds
Fixed income pooled funds, equity pooled funds, and real estate funds investments do not have process quoted in the active market. Fair value is based on valuation models which compute the present value of the each investment`s expected future cash flows. The inputs to these valuation models are derived from observable market data and, where relevant, assumptions are made in respect of unobservable inputs. Since the projected earnings of these entities are not supported by prices from observable current market transactions, it is reasonably possible that changes in these best estimate assumptions would change the fair value of these investments significantly.

6. CONTRIBUTIONS

	2015	2014
	$	**$**
The City of Saint John		
Current service	**7,982,400**	7,827,015
Voluntary purchase of past service	**154,158**	350,179
Temporary contributions	**10,212,779**	9,983,496
	18,349,337	18,160,690
Employees		
Current service	**6,265,073**	6,109,560
Voluntary purchase of past service	**73,307**	118,250
	6,338,380	6,227,810
	24,687,717	24,388,500

7. COMPARATIVE FIGURES

The comparative financial statements have been reclassified from statements previously presented to conform to the presentation of the current year financial statements.

SCHEDULE OF ADMINISTRATIVE EXPENSES

Year ended December 31

	2015	2014
	$	$
Investment management fees	**1,273,791**	1,669,570
Legal fees	**408,699**	344,036
Actuarial and consulting services	**318,828**	354,380
Other administrative expenses	**145,621**	98,699
Administration fees paid to The City of Saint John	**133,074**	138,897
Custodian fees	**121,484**	90,204
Performance measurement services	**102,788**	97,220
Insurance	**92,095**	92,095
	2,596,380	2,885,101