

Algoma University - Pension Plan
Financial Statements
For the year ended June 30, 2019

Contents

Independent Auditor's Report	2
Financial Statements	
Statement of Net Assets Available for Benefits	4
Statement of Changes in Net Assets Available for Benefits	5
Notes to Financial Statements	6



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Independent Auditor's Report

To the Pension Committee of Algoma University - Pension Plan

Opinion

We have audited the financial statements of Algoma University - Pension Plan (the Plan), which comprise the statement of net assets available for benefits as at June 30, 2019 and the statement of changes in net assets available for benefits 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 net assets available for benefits of the Plan as at June 30, 2019, and its changes in net assets available for benefits for the year then ended in accordance with the financial reporting provisions under Section 76 of Regulation 909 to the Pension Benefits Act, 1990 (Ontario).

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 the 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.

Emphasis of Matter - Basis of Accounting and Restriction on Use

We draw attention to Note 1 to the financial statements which describes the basis of accounting. The financial statements are prepared to assist the Pension Committee to meet the requirements of the Financial Services Regulatory Authority of Ontario. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter. Our report is intended solely for the Pension Committee of the Plan and the Financial Services Regulatory Authority of Ontario and should not be used by parties other than the Pension Committee of the Plan or the Financial Services Regulatory Authority of Ontario.

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 the financial reporting provisions under Section 76 of Regulation 909 to the Pension Benefits Act, 1990 (Ontario) 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 the 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 the Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the 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 the 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 the 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 the 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.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Sault Ste. Marie, Ontario
November 28, 2019

**Algoma University - Pension Plan
Statement of Net Assets Available for Benefits**

June 30	2019	2018
Assets		
Contributions receivable		
Employee	\$ 12,775	\$ 12,451
Employer	24,260	85,482
	<u>37,035</u>	<u>97,933</u>
Managed investments (Note 2)	<u>27,210,518</u>	<u>26,370,510</u>
	<u>27,247,553</u>	<u>26,468,443</u>
Liabilities		
Accrued administrative expenses (Note 3)	<u>152,752</u>	<u>100,067</u>
Net assets available for benefits	<u>\$ 27,094,801</u>	<u>\$ 26,368,376</u>

On behalf of the Pension Plan



Chair

Algoma University - Pension Plan
Statement of Changes in Net Assets Available for Benefits

For the year ended June 30	2019	2018
Increase in net assets:		
Income:		
Investment income (Note 4)	\$ 1,755,563	\$ 2,306,312
Net realized gain on sale of investments	3,271	278,566
Net unrealized gains (losses)	(338,814)	(265,892)
	<u>1,420,020</u>	<u>2,318,986</u>
Contributions:		
Employer - current service	292,352	293,706
Employer - contribution towards unfunded actuarial liability	440,000	440,000
	<u>732,352</u>	<u>733,706</u>
Employee - current service	153,951	154,663
	<u>886,303</u>	<u>888,369</u>
Total increase in assets	<u>2,306,323</u>	<u>3,207,355</u>
Decrease in net assets:		
Administrative expenses:		
Actuarial	113,201	123,169
Audit	8,328	8,278
Custodial fees	22,771	23,497
Investment management	104,337	105,147
Ministerial fees and other	19,834	-
	<u>268,471</u>	<u>260,091</u>
Pension benefits	1,311,427	1,333,801
	<u>1,579,898</u>	<u>1,593,892</u>
Total decrease in assets	<u>1,579,898</u>	<u>1,593,892</u>
Net increase in net assets	726,425	1,613,463
Net assets available for benefits, beginning of year	<u>26,368,376</u>	<u>24,754,913</u>
Net assets available for benefits, end of year	<u>\$ 27,094,801</u>	<u>\$ 26,368,376</u>

The accompanying notes are an integral part of these financial statements.

Algoma University - Pension Plan

Notes to Financial Statements

June 30, 2019

The Algoma University Pension Plan ("the Plan") is a defined benefit pension plan and provides benefits based on length of service and best average earnings. The Plan is registered in Ontario under the Pension Benefits Act registration number 0575209. Effective July 1, 2006, the Plan was closed to new members.

1. Summary of significant accounting policies

a) Basis of presentation:

The financial statements have been prepared in accordance with the significant accounting policies set out below to comply with the financial reporting provisions of Section 76 of Regulation 909 to the Pension Benefits Act, 1990 (Ontario) as required by the Financial Services Regulatory Authority of Ontario. These regulations require pension plans to adhere to the provisions of *Section 4600 - Pension Plans in Part IV - Accounting Standards for Pension Plans* of the Chartered Professional Accountants (CPA) Canada Handbook, although they permit the exclusion of the actuarial liabilities of the Plan. Consequently, these financial statements do not purport to show the adequacy of the Plan's assets to meet its pension obligations. As the financial statements do not include the pension obligations, these financial statements are pension fund financial statements. For accounting policies that do not adhere to the Plan's investment portfolio, the Plan has elected to apply Canadian accounting standards for private enterprises.

b) Contributions and funding policy:

Contributions are recognized on the accrual basis of accounting.

Members are required to contribute 8% of their compensation to the Plan subject to the maximum contribution limits permitted under the Income Tax Act. Algoma University, as plan sponsor, is required to contribute the funding necessary to ensure that benefits will be fully provided. The determination of the value of these benefits is made on the basis of a periodic actuarial valuation prepared at least once every three years.

Members can also make additional voluntary contributions to the Plan. Voluntary contributions are not matched, in whole or in part, by the University.

c) Pension benefits

Pension benefits are shown as expenditures in the year of payment.

d) Investments:

Investments are stated at fair value. In determining fair values, adjustments have not been made for transaction costs as they are not considered to be significant. The change in the difference between the fair value and cost of investments at the beginning and end of each year is reflected in the statement of changes in net assets available for benefits as net unrealized gains.

Pooled fund investments are valued at the unit values supplied by the pooled fund administrator, which represent the Plan's proportionate share of underlying net assets at fair values determined using closing market prices.

e) Net realized gain on sale of investments:

The net realized gain on sale of investments is the difference between proceeds received and the average cost of investments sold.

Algoma University - Pension Plan

Notes to Financial Statements

June 30, 2019

1. Summary of significant accounting policies (continued)

f) Investment income:

Investment income, which is recorded on the accrual basis, includes interest income and dividends.

g) Foreign currency translation:

The fair values of foreign currency denominated investments included in the statement of net assets available for benefits are translated into Canadian dollars at year-end rates of exchange. Gains and losses arising from translations are included in net unrealized gains (losses). Foreign currency denominated transactions as well as cost amounts included in note 2 to the financial statements, are translated into Canadian dollars at the rates of exchange on the dates of the related transactions.

h) Actuarial valuation

For purpose of review of the defined benefit, actuarial valuations are made at least every three years. The date of the last actuarial on July 1, 2018 was prepared by Willis Tower Watson. This valuation showed a going concern surplus of \$323,000 and a solvency deficit of \$2,290,000. The next actuarial valuation is scheduled to be completed no later than July 1, 2021.

i) Income tax status:

The Plan is a Registered Pension Trust as defined by the Income Tax Act (Canada) and, as such, is not subject to income taxes.

j) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of increases and decreases in assets during the reported period. Actual results could differ from management's best estimate as additional information becomes available.

2. Managed investments

	2019		2018	
	Market	Cost	Market	Cost
PH&N Cdn Bond Fund	\$ 11,652,940	\$ 11,687,230	\$ 11,098,478	\$ 11,629,548
BonaVista Cdn Equity Fund (PH&N)	9,675,309	10,965,953	9,415,355	9,727,364
PH&N US Equity Fund	2,819,041	2,249,307	2,774,714	2,334,108
PH&N Overseas Equity Fund	2,882,276	2,302,679	2,723,418	2,157,734
PH&N Cdn Money Market Fund	144,270	144,270	275,146	275,146
Cash	36,682	36,682	83,399	83,399
	\$ 27,210,518	\$ 27,386,121	\$ 26,370,510	\$ 26,207,299

The manager of the funds is RBC Global Asset Management Inc. The trustee is RBC Investor & Treasury Services.

Algoma University - Pension Plan Notes to Financial Statements

June 30, 2019

2. Managed investments (continued)

The Statement of Investment Policies and Procedures ("SIPP") establishes a target mix among fixed income, equity, and short-term investments to ensure diversification across assets and classes with the following actual results:

	Range	Target	2019	2018
Fixed Income	25% to 60%	45%	42.8%	42.1%
Canadian Equity	30% to 70%	35%	35.6%	35.7%
US Equity	0% to 30%	10%	10.4%	10.5%
Global Equity	0% to 30%	10%	10.6%	10.3%
Money Market	0% to 10%	0%	0.5%	1.0%
Cash	0% to 10%	0%	0.1%	0.3%

3. Accrued administrative expenses

	2019	2018
Actuarial fees	\$ 89,054	\$ 64,952
Investment management fees	27,784	27,148
Custodial fees	5,338	6,233
Audit fees	8,654	-
Minister of finance fees	354	-
Pension benefits guarantee fee	19,510	-
Accruals	7,195	7,195
HST recoveries	(5,137)	(5,461)
	\$ 152,752	\$ 100,067

4. Investment income by investment category

	2019	2018
Canadian Fixed Income Fund	\$ 344,194	\$ 359,561
Canadian Equity Fund	1,308,215	1,828,730
United States Equity Fund	38,517	45,950
Global Equity Fund	59,644	64,586
Canadian Pooled Money Market Fund	4,993	7,485
	\$ 1,755,563	\$ 2,306,312

5. Capital risk management

The Plan considers its capital to be its net assets available for benefits. The Plan's objective when managing capital is to sustain a certain level of net assets in order to meet the pension obligations of the University, which are not presented or discussed in these specified purpose financial statements. The Plan fulfils its primary objective by adhering to the specific investment policies outlined in its SIPP, which is reviewed annually by the management of Algoma University and was last amended in February 2011.

Algoma University - Pension Plan

Notes to Financial Statements

June 30, 2019

5. Capital risk management (continued)

The Plan manages net assets by engaging investment managers who are charged with the responsibility of investing new and existing funds in accordance with the approved SIPP. The investment goal of the Fund is to achieve a rate of return, after deducting management fees, equal to 100% of the annual change in Consumer Price Index for Canada plus 4.0% when calculated as an annual compounded rate over a complete capital market cycle.

There has been no changes in what the Plan considers to be its capital and there has been no significant changes to the Plan's capital management objectives, policies and processes in the year.

Although there are no regulatory requirements relating to the level of net assets and/or funding to be maintained by the Plan, the Plan is required to file financial statements to the Financial Services Regulatory Authority of Ontario and it also files an Annual Information Return with the Minister of Finance, Revenue Operations and Client Services Branch.

6. Financial risk management

Investments are exposed to market price, liquidity, foreign currency, credit and interest rate risks. These risks have not changed from the prior year. The Plan has formal policies and procedures to monitor this risk exposure.

a) Liquidity risk

Liquidity risk is the risk that the Plan will not be able to meet its financial obligations because of an inability to liquidate assets. The Plan's approach to managing liquidity is to evaluate current and expected liquidity requirements to ensure that it maintains sufficient cash and cash equivalents to meet its liquidity requirements in the short and longer term. All of the Plan's investments are in liquid securities traded in the public market and can be readily disposed, assuming orderly markets.

b) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in foreign exchange rates. Foreign currency exposure arises from the Plan holding investments denominated in currencies other than the Canadian dollar. The exposure to currency risk at June 30, 2019 is significant but indirect due to the Plan's investment in US and Global pooled funds.

c) Market price risk

Market price risk is the risk that the fair values or future cash flows of an investment will fluctuate because of changes in market prices (other than those arising from foreign currency risk and interest rate risk), whether those changes are caused by factors specific to an individual investment or its issuer or factors affecting all similar securities traded in the market. All investments present a risk of loss of capital. The maximum risk resulting from investments is equivalent to their fair value. As all of the Plan's investments are carried at fair value with fair values changes recognized in the statement of change in net assets available for benefits, all changes in market conditions will directly result in an increase (decrease) in net assets.

An immediate hypothetical decline of 10% in values of the pooled funds will impact the Plan's investments by an approximate loss of \$2,717,000 (2018 - \$2,629,000).

Algoma University - Pension Plan Notes to Financial Statements

June 30, 2019

6. Financial risk management (continued)

d) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Plan is exposed to interest rate risk associated with its investments. Investments are diversified and held with reputable parties in order to manage this risk.

Interest rate risk is the sensitivity of the Plan's financial position to movements in market interest rates. The SIPP has established restrictions on concentration, which are designed to mitigate the risk of interest rate volatility.

While the Plan has interest rate risk, the risk to the Plan is indirect in nature as the Plan is not directly holding any interest sensitive investments.

e) Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Plan. The maximum credit risk exposure as at June 30, 2019 represents the total value of the investments.

The SIPP establish the minimum quality standard of "BBB" for individual bonds, while requiring that at least 95% of the market value of short-term securities have a credit rating of at least A or its equivalent.

Fair Value Hierarchy

The Plan uses a fair value hierarchy in order to disclose the Plan's financial assets and financial liabilities that are measured at fair value in the statement of net assets available for benefits.

The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

As at June 30, 2019, all investments are Level 1 within the fair value hierarchy. There were no transfers between levels during the year.