

**Liquor Board Superannuation Commission**

**Liquor Board Superannuation Plan**

**Financial Statements**

**Year Ended December 31, 2013**



## INDEPENDENT AUDITOR'S REPORT

To: The Members of the Legislative Assembly of Saskatchewan

I have audited the accompanying financial statements of the Liquor Board Superannuation Plan, which comprise the statement of financial position as at December 31, 2013 and the statements of changes in net assets available for benefits and changes in 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 Liquor Board Superannuation Plan as at December 31, 2013 and the changes in net assets available for benefits and changes in pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Regina, Saskatchewan  
March 31, 2014

Judy Ferguson, FCA  
Acting Provincial Auditor

**Liquor Board Superannuation Commission****Statement 1****Liquor Board Superannuation Plan  
Statement of Financial Position****As at December 31**

	<b>2013</b> <b>(000's)</b>	<b>2012</b> <b>(000's)</b>
<b>ASSETS</b>		
Due from General Revenue Fund (Note 6)	\$ 11	\$ 30
Investments Pooled Funds (Note 4)	10,508	9,915
Receivables Employer's contributions	-	236
Other	-	1
Total assets	<u>10,519</u>	<u>10,182</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	<u>10</u>	<u>12</u>
Total liabilities	<u>10</u>	<u>12</u>
NET ASSETS AVAILABLE FOR BENEFITS (Statement 2)	10,509	10,170
Pension obligations (Statement 3)	<u>57,091</u>	<u>64,341</u>
Deficit	<u>\$46,582</u>	<u>\$54,171</u>

(See accompanying notes to the financial statements)

**Liquor Board Superannuation Commission****Statement 2****Liquor Board Superannuation Plan  
Statement of Changes in Net Assets Available for Benefits****Year Ended December 31**

	<b>2013</b> (000's)	<b>2012</b> (000's)
<b>INCREASE IN ASSETS</b>		
Investment income		
Interest	\$ 1	\$ 3
Pooled Funds	337	294
	<u>338</u>	<u>297</u>
Increase in market value of investments	993	453
Contributions		
Employees'	-	8
Employer's (Note 1c)	3,276	3,430
	<u>3,276</u>	<u>3,430</u>
Total increase in assets	<u>4,607</u>	<u>4,188</u>
<b>DECREASE IN ASSETS</b>		
Superannuation allowances	4,177	4,130
Administration expenses (Note 10)	91	97
	<u>4,268</u>	<u>4,227</u>
Total decrease in assets	<u>4,268</u>	<u>4,227</u>
Increase/(Decrease) in net assets	339	(39)
NET ASSETS AVAILABLE FOR BENEFITS, beginning of year	<u>10,170</u>	<u>10,209</u>
NET ASSETS AVAILABLE FOR BENEFITS, end of year (Statement 1)	<u>\$ 10,509</u>	<u>\$ 10,170</u>

(See accompanying notes to the financial statements)

**Liquor Board Superannuation Commission****Statement 3****Liquor Board Superannuation Plan  
Statement of Changes in Pension Obligations****Year Ended December 31**

	<b>2013</b> <b>(000's)</b>	<b>2012</b> <b>(000's)</b>
PENSION OBLIGATIONS, beginning of year	<u>\$ 64,341</u>	<u>\$ 61,723</u>
INCREASE IN PENSION OBLIGATIONS		
Interest on accrued obligations	2,303	2,567
Obligations accrued	-	43
Net loss due to change in assumptions	-	4,027
Net experience loss	<u>-</u>	<u>111</u>
	<u>2,303</u>	<u>6,748</u>
DECREASE IN PENSION OBLIGATIONS		
Obligations paid	4,177	4,130
Gain due to change in assumptions (Note 5)	5,018	-
Net experience gain (Note 5)	<u>358</u>	<u>-</u>
	<u>9,553</u>	<u>4,130</u>
PENSION OBLIGATIONS, end of year (Statement 1)	<u>\$57,091</u>	<u>\$64,341</u>

(See accompanying notes to the financial statements)

## **Liquor Board Superannuation Commission**

### **Liquor Board Superannuation Plan Notes to the Financial Statements**

**December 31, 2013**

#### **1. Description of the Plan**

##### **a) General**

The Liquor Board Superannuation Plan which is domiciled in Regina, Saskatchewan is a defined benefit final average pension plan established under *The Liquor Board Superannuation Act* (Act). The Act also established the Liquor Board Superannuation Fund to account for all transactions of the Plan. Membership is comprised of employees of the Liquor and Gaming Authority (SLGA) who were enrolled on October 1, 1977 and who did not elect to transfer to the Public Employees Pension Plan prior to October 1, 1978. When a member of the Public Service Superannuation Plan or the Saskatchewan Power Corporation Superannuation Plan becomes an employee of the Liquor and Gaming Authority, the members' accumulated contributions and interest are transferred to the Liquor Board Superannuation Plan and the members are given credit for his/her full service under the former plan.

Complete Plan details are contained in the Act, *The Superannuation (Supplementary Provisions) Act* and *The Superannuation Acts Uniform Regulations*.

##### **b) Administration**

The Liquor Board Superannuation Commission administers the Plan. Day-to-day administration is provided by the Public Employees Benefits Agency.

##### **c) Funding Policy**

As of December 31, 2013, all active members have reached 35 years of service and are no longer required to make contributions. Members contributed at the rate of 7%, 8% or 9% of salary depending on their age at the date of commencement of employment. Contributions were reduced by an amount equal to deemed Canada Pension Plan contributions. The employer contributed a fixed percentage of the members' contributions as necessary to fund the benefits provided by the Plan. This rate was set periodically by the Commission on the advice of the Actuary. In addition, the employer has been providing special funding to cover the unfunded liability in the Plan. In 2013, the employer provided special funding of \$3,276,721 (2012 - \$3,393,192).

##### **d) Retirement**

Normal retirement is at age 65. Employees may retire earlier under certain conditions.

##### **e) Pensions**

Annual pensions are calculated as 2% of a member's average salary during the five years of highest salary, multiplied by the total number of years of service to a maximum of 35. At age 65, members' pensions are reduced due to integration with the Canada Pension Plan. Pensions are indexed each April 1 based upon 70% of the year-over-year increase in the Consumer Price Index.

**f) Income Tax**

The Plan is a registered pension plan as defined by the *Income Tax Act (Canada)* and accordingly, is not subject to income taxes. Allowances and refunds are subject to withholding taxes that are remitted to Canada Revenue Agency.

**2. Basis of Preparation**

**a) Statement of compliance**

The financial statements for the year ended December 31, 2013 have been prepared in accordance with Canadian accounting standards for pension plans as outlined in the CPA Canada Handbook Section 4600, *Pension Plans*. For matters not addressed in Section 4600, International Financial Reporting Standards (IFRS) have been followed.

These financial statements were authorized and issued by the Commission on March 31, 2014.

**b) Basis of measurement**

The financial statements have been prepared on the historical cost basis except for financial instruments which have been valued at fair value.

**c) Functional and presentation currency**

These financial statements are presented in Canadian dollars, which is the Plan's functional currency, and are rounded to the nearest thousand unless otherwise stated.

**3. Significant Accounting Policies**

The significant accounting policies are as follows:

**a) Basis of accounting**

These financial statements are prepared on the going-concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the sponsor and plan members. They are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal period but they do not portray the funding requirements of the Plan or the benefit security of individual plan members.

**b) Investments**

Pooled fund investments are valued at the unit value supplied by the pooled fund administrator, which represent the underlying net assets of the pooled fund at fair values determined using closing bid prices.

The change in the market value of investments during the year is reflected on the financial statements as a market value adjustment.

**c) Investment transactions and income**

Investment transactions are recorded on the trade date. Transactions conducted in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the transaction date. Dividend income is recognized on the record date. Monetary items denominated in foreign currency are translated at the exchange rate in effect at year-end.

**d) Special funding**

SLGA periodically provides special funding to the plan. The special funding is recognized as revenue of the Plan when received.

**e) Use of estimates**

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation process is related to the actuarial determination of the pension obligation (Note 5).

**f) Changes in accounting policies**

**IFRS 13 - Fair Value Measurement**

IFRS 13, issued in May 2011, redefines fair value to emphasize that it is a market-based measurement, not an entity-specific measurement. It also provides a single framework for measuring fair value and applies, with limited exceptions, when another standard permits or requires fair value measurement. In addition, IFRS 13 requires specific disclosures about fair value measurement. The standard is effective for annual periods beginning on or after January 1, 2013.

The Plan has adopted the new standards, along with any consequential amendments, effective January 1, 2013. The adoption of these changes did not result in any adjustments and had no significant impact.

**4. Investments**

The Plan limits its investments in pooled equity funds to 10% of the market value of each fund. Foreign equities including foreign pooled funds are limited to 40% of the cost of the investment portfolio and are denominated in Canadian dollars. The Plan's units in pooled funds have no fixed interest rate and the returns are based on the success of the fund manager. The Plan's pooled funds are comprised of the following:

	Units Held		% of Total Units Outstanding		Market Value		Investment Income and Change in Market Value	
	2013	2012	2013	2012	2013	2012	2013	2012
	(000's)				(000's)		(000's)	
Greystone Fixed Income Fund	399	383	0.51	0.53	\$4,103	\$4,107	\$ (32)	\$ 164
Greystone Canadian Equity Fund	90	102	0.15	0.13	2,310	2,256	407	150
Greystone EAFE Growth Fund	155	164	0.15	0.12	1,754	1,475	390	229
Greystone US Equity Fund	115	126	1.01	0.81	1,771	1,451	558	197
Greystone Money Market Fund	57	63	0.19	0.17	570	626	7	7
					\$10,508	\$9,915	\$ 1,330	\$747

The Greystone EAFE Growth Fund may use derivative financial instruments such as foreign currency forward exchange contracts and future contracts for hedging foreign currency and replicating indices.

Derivative financial instruments are financial contracts that change in value resulting from changes in underlying assets or indices. Derivatives transactions are conducted in over-the-counter markets directly between two counterparties or on regulated exchange markets. All derivative financial instruments are recorded at market value using market prices. Where market prices are not readily available, other valuation techniques are used to determine market value.

### **Fair Value**

The Plan has classified its required fair valued financial instrument holdings using a hierarchy that reflects the significance of the inputs used in determining their measurements.

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments valued using inputs that are not based on observable market data are classified as Level 3.

The Plan presently holds only pooled funds that are classified as Level 2.

## **5. Pension Obligations**

An actuarial valuation of the Liquor Board Superannuation Plan was performed as at September 30, 2011 and extrapolated to December 31, 2013 by Aon Hewitt. The actuary used the projected benefit method prorated on services to determine the actuarial present value of pension obligations. The next triennial valuation is due September 30, 2014.

The pension liability is based on a number of assumptions about future events including: discount rate, rate of salary increase, mortality, retirement rates and inflation. The actual rates may vary significantly from the long-term assumptions used. There has been a change in the discount rate since the previous extrapolation. The discount rate is based on the yield on long-term high grade (AAA/AA) Canadian corporate bonds with cash flows that match the timing and amount of expected benefit payments. This yield has increased from 3.70% to 4.50% resulting in a decrease in the pension benefits.

Significant long-term actuarial assumptions used in determining the pension obligations were:

	<b>2013</b>	<b>2012</b>
Salary escalation rate	3.50%	3.50%
Inflation rate	2.50%	2.50%
Discount rate	4.50%	3.70%
Mortality table	1994 UPM with generational projection	1994 UPM with generational projection
EARSL	0.0	0.0
Expected long-term rate of return	5.50%	5.75%

The following illustrates the effect of changing certain assumptions from assumed rates of: inflation 2.50%, salary 3.50% and discount rate 4.50%.

### Long-Term Assumptions

	Inflation*		Salary		Discount Rate	
	3.5%	1.5%	4.5%	2.5%	5.5%	3.5%
(Decrease) increase in pension obligation	(2.4%)	2.5%	0.0%	(0.0%)	(9.7%)	11.7%

\* A change in the inflation rate of 1% has a corresponding change in the discount rate of 1%, and in the salary scale of 1%.

The net gain due to the change in assumptions is due to the change in discount rate from 3.70% to 4.50%.

The net experience gain is due to the indexing at April 1, 2013 being less than expected.

If there are insufficient monies in the Fund to pay allowances, Liquor and Gaming Authority is obligated to pay any deficiency to the Plan.

### Cash Flow Forecast

The total cash inflow is the amount of employee and employer contributions expected to be received by the pension plan together with interest on investments of 5.5% and employer contributions calculated as 79.4% of total benefit payments. The total cash outflows are the amounts that are required to pay all pension obligations. Forecast of cash flows have been determined using the long-term assumptions used in the extrapolation. All amounts are based on actual dollar forecasts.

	Contributions	Benefits Paid	(\$000's) Investment Return	Net Cash Outflow
2014	3,520	4,434	553	361
2015	3,420	4,308	534	354
2016	3,328	4,193	515	350
2017	3,230	4,069	496	343
2018	3,135	3,950	478	337
Total next 5 years	16,633	20,954	2,576	1,745
Total 5-10 years	14,164	17,844	2,133	1,547
Total 11-30 years	39,415	49,753	4,549	5,789
Total 31-50 years	7,521	9,475	432	1,522

## 6. Due from General Revenue Fund

The Liquor Board Superannuation Plan bank account is included in the Consolidated Offset Bank Concentration (COBC) arrangement for the Government of Saskatchewan.

The Plan's earned interest is calculated and paid by the General Revenue Fund on a quarterly basis into the Plan's bank account using the Government's thirty-day borrowing rate, and the Plan's average daily bank account balance. The Government's average thirty-day borrowing rate in 2013 was 1.05% (2012 – 1.08%).

## 7. Financial Risk Management

The nature of the Plan's operations results in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Plan's investments. These financial risks are managed by having an investment policy, which is approved annually by the Commission. The investment policy provides guidelines to the Plan's investment managers for the asset mix of the portfolio regarding quality and quantity of fixed income and equity investments. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Commission reviews regular compliance reports from its investment manager as to their compliance with the investment policy. The Commission also reviews regular compliance reports from the pooled fund custodian as to the investment manager's compliance with the investment policy.

### **Credit risk**

The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which it is exposed at December 31, 2013 is limited to the carrying value of the financial assets summarized as follows:

	(\$000's)	
	<u>2013</u>	<u>2012</u>
Due from the General Revenue Fund	\$ 11	\$ 30
Accounts receivable	-	237
Fixed income investments <sup>1</sup>	4,673	4,733

<sup>1</sup> Includes the fixed income and money market pooled funds.

Accounts receivable is primarily made up of special funding payments from the plan sponsor.

Credit risk within investments is primarily related to the Money Market Pooled Fund and the Fixed Income Pooled Fund. It is managed through the investment policy that limits fixed term investments to those of high credit quality (minimum rating for bonds is BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

### **Market risk**

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

### Interest rate risk

The Plan is exposed to changes in interest rates in its fixed income investments. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point change in interest rates would change net assets available for benefits and unfunded liability by \$0.28 million at December 31, 2013, representing 6.8% of the \$4.1 million fair value of fixed income investments.

### Foreign exchange

The Plan is exposed to changes in the U.S. dollar through its U.S. equity pooled fund. Also, the Plan is exposed to changes in EAFE (Europe, Australasia and Far East) currencies through its investment in the EAFE equity pooled fund. Exposure to both U.S. equities and Non-North American equities is limited to a maximum 20% each of the market value of the total investment portfolio. At December 31, 2013, the Plan's exposure to U.S. equities was 16.8% (2012 – 14.6%) and its exposure to Non-North American equities was 16.7% (2012 – 14.9%).

At December 31, 2013, a 10% change in the Canadian dollar versus U.S. dollar exchange rate would result in an approximate \$0.18 million change in net assets available for benefits and

unfunded liability. A 10% change in the Canadian dollar versus the EAFE currencies would result in an approximate \$0.18 million change in net assets available for benefits and unfunded liability.

#### Equity prices

The Plan is exposed to changes in equity prices in Canadian, U.S. and EAFE markets through its pooled funds. Equity pooled funds comprise 55.5 % (2012 – 52.3%) of the carrying value of the Plan's total investments.

The following table indicates the approximate change that could be anticipated in net assets available for benefits and unfunded liability based on changes in the Plan's benchmark indices at December 31, 2013:

	(Change in \$000's)	
	10% increase	10% decrease
S&P/TSX Composite Index	\$ 231	\$ (231)
S&P 500 Index	177	(177)
MSCI EAFE Index	175	(175)

#### **Liquidity risk**

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. Accounts payable and accrued liabilities will be paid within the next fiscal period.

### **8. Related Party Transactions**

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Plan by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control or significant influence by the Government of Saskatchewan collectively referred to as "related parties". The administration expenses of the Plan are paid to the Public Employees Benefits Agency (PEBA) Revolving Fund.

Other transactions with related parties and amounts due to or from them are disclosed separately in these financial statements and notes.

Related party transactions with the Plan are in the normal course of operation and are recorded at exchange amounts agreed to by the parties to the transactions.

### **9. Investment Performance**

The investment manager makes day-to-day decisions on whether to buy or sell investments in order to achieve the long-term performance objectives set by the Commission. The Commission reviews the investment performance of the Plan in terms of the performance of the benchmark portfolio over 4 year rolling periods. The primary long-term investment performance objective for the entire portfolio is to outperform a benchmark portfolio.

The following is a summary of the Plan's investment performance:

	<u>Annual Return</u>		<u>Rolling Four-Year Average Annual Return</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Plan's actual rate of return (a)	13.87%	7.78%	7.41%	7.20%
Plan's Target rate of return (b)	11.60%	7.29%	7.24%	7.53%

- (a) The annual return is before deducting investment expenses.
- (b) The Plan's target rate of return for its investment portfolio (return on the benchmark portfolio) has been determined using the actual returns of the market indices such as the Toronto Stock Exchange Capped Composite 10% Index, S&P 500 Index, Morgan Stanley Capital International Europe Australasia Far East Index and the DEX Universe Bond Index.

#### 10. Administration Expenses

	<u>2013</u>		<u>2012</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Administration - PEBA Revolving Fund	\$95	\$71	\$76
Investment management fees – Greystone*	21	20	21
	<u>\$116</u>	<u>\$91</u>	<u>\$97</u>

\*Investment management fees are based on the market value of the portfolio.

#### 11. Fair Value of Financial Assets and Financial Liabilities

The following method and assumptions were used to estimate the fair value of each class of financial assets and financial liabilities:

Fair values of investments are considered to be market values (Note 3).

For the following financial instruments the carrying amounts approximate fair value due to the immediate or short-term nature of these financial assets and financial liabilities.

- Receivables
- Due from General Revenue Fund
- Accounts payable and accrued liabilities

#### 12. Capital Management

The Plan receives new capital from special funding provided by the employer. The Plan also benefits from income and market value increases on its invested capital. The Plan's capital is invested in a number of pooled funds including equity funds, a fixed income fund, and a money market fund. The Commission has delegated the operational investment decisions to Greystone Managed Investments Inc. as defined in the Plan's Statement of Investment Policy and Procedures.