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INDEPENDENT AUDITORS' REPORT

To the Members of the Legislative Assembly Province of Saskatchewan

We have audited the accompanying financial statements of the Pension Plan for the Employees of the Saskatchewan Workers' Compensation Board, which comprise the statement of financial position as at December 31, 2014, and the statements of changes in net assets available for benefits and changes in pension obligations 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.

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 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 the Pension Plan for the Employees of the Saskatchewan Workers' Compensation Board as at December 31, 2014, and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Accountants

March 9, 2015
Regina, Canada

**Pension Plan for the Employees of the
Saskatchewan Workers' Compensation Board
Statement of Financial Position**

Statement 1

As at December 31
(In thousands of dollars)

	<u>2014</u>	<u>2013</u>
ASSETS		
Investments (Note 5)		
Short-term Investments	\$ 2,246	\$ 1,589
Bonds and Debentures	13,833	13,815
Equities	9,776	9,078
Pooled Equity Funds	<u>10,457</u>	<u>10,779</u>
	36,312	35,261
Accrued Investment Income	100	105
Due from General Revenue Fund (Note 6)	920	524
Cash	<u>13</u>	<u>35</u>
Total Assets	<u>37,345</u>	<u>35,925</u>
LIABILITIES		
Accounts Payable and Accrued Liabilities	<u>36</u>	<u>13</u>
NET ASSETS AVAILABLE FOR BENEFITS	37,309	35,912
Pension Obligations	<u>39,874</u>	<u>35,140</u>
Surplus (Deficit)	<u>\$ (2,565)</u>	<u>\$ 772</u>

(See accompanying notes to the financial statements)

Approved by the Board and signed on their behalf on March 9, 2015

_____ Chairman

_____ Board Member

_____ Board Member

**Pension Plan for the Employees of the
Saskatchewan Workers' Compensation Board
Statement of Changes in Net Assets Available for Benefits**

Statement 2

Year Ended December 31

(In thousands of dollars)

	<u>2014</u>	<u>2013</u>
INCREASE IN ASSETS		
Investment income		
Interest	\$ 470	\$ 499
Dividends – Equities	219	224
Distributions – Pooled Funds	1,051	424
Other	-	1
	<u>1,740</u>	<u>1,148</u>
 Increase in Fair Values of Investments	 1,874	 3,229
Contributions		
Employee	-	-
Employer	426	426
	<u>426</u>	<u>426</u>
 Total Increase in Assets	 <u>4,040</u>	 <u>4,803</u>
 DECREASE IN ASSETS		
Administration Expenses (Note 11)	131	162
Superannuation Allowances	2,512	2,414
	<u>2,643</u>	<u>2,576</u>
 Total Decrease in Assets	 <u>2,643</u>	 <u>2,576</u>
 Increase in Net Assets Available for Benefits	 1,397	 2,227
 NET ASSETS AVAILABLE FOR BENEFITS, beginning of year	 <u>35,912</u>	 <u>33,685</u>
 NET ASSETS AVAILABLE FOR BENEFITS, end of year	 <u>\$ 37,309</u>	 <u>\$ 35,912</u>

(See accompanying notes to the financial statements)

**Pension Plan for the Employees of the
Saskatchewan Workers' Compensation Board
Statement of Changes in Pension Obligations**

Statement 3

Year Ended December 31

(In thousands of dollars)

	<u>2014</u>	<u>2013</u>
PENSION OBLIGATIONS, beginning of year	\$ 35,140	\$ 39,097
INCREASE IN PENSION OBLIGATIONS		
Interest Accrued on Obligations	1,525	1,421
Obligations Accrued	4	4
Change in the Discount Rate Assumption	3,538	-
Change in Cost-of-Living Assumption	2,179	-
	<u>7,246</u>	<u>1,425</u>
DECREASE IN PENSION OBLIGATIONS		
Obligations Paid	2,512	2,414
Change in the Discount Rate Assumption	-	2,968
	<u>2,512</u>	<u>5,382</u>
PENSION OBLIGATIONS, end of year	<u>\$ 39,874</u>	<u>\$ 35,140</u>

(See accompanying notes to the financial statements)

**Pension Plan for the Employees of the
Saskatchewan Workers' Compensation Board
Notes to the Financial Statements**

December 31, 2014

1. Description of the Plan

a) General

The Pension Plan for the Employees of The Saskatchewan Workers' Compensation Board (the Plan) is a defined benefit final average pension plan established under *The Workers' Compensation Board Pension Implementation Act*. This Plan replaces the Workers' Compensation Board Superannuation Plan (former plan). Membership is comprised of employees and board members who were enrolled in the former plan on October 1, 1977 and who did not elect to transfer to the Public Employees Pension Plan prior to October 1, 1978. The description of the Plan is a summary only. For complete information reference should be made to the plan text.

b) Administration

The Workers' Compensation Board (WCB) administers the Plan. Day-to-day administration is provided by the Public Employees Benefits Agency (PEBA). The WCB has established a trust fund for the Plan and appointed RBC Investor Services as the Trustee.

c) Superannuation Plan

The Plan was established to accumulate contributions paid by employees and the employer, as well as any investment income.

Superannuation allowances and refunds of contributions together with interest are paid out of the Plan.

d) Funding policy

Members contribute at the rate of seven per cent, eight per cent or nine per cent of salary depending on their age at the date of the commencement with the Plan.

The contributions required to be paid by the employer are calculated by applying a predetermined rate to the members' contributions.

e) Retirement

Normal retirement is at age 65. Members who retire may receive benefit payments earlier under the following conditions:

- At any age after 35 years of service;
- At age 60 with at least 20 years of service;
- At age 60 with between 15 years and 20 years of service with a reduced pension; and
- At age 55 with at least 30 years of service with a reduced pension.

f) Pension

The lifetime annual pension payable to a member is 2.0 per cent of the average salary received by the member during the five years of highest salary, multiplied by the total number of years of service. The maximum number of years of service is 35 years. At age 65, a member's pension is reduced due to integration with the Canada Pension Plan.

g) Income taxes

The Plan is a registered pension plan as defined in *The Income Tax Act* (Canada) and is not subject to income taxes. Superannuation allowances paid from the Plan are subject to source income tax deductions that are deducted by RBC Investor Services and remitted to Canada Revenue Agency.

2. Basis of Preparation

a) Statement of Compliance

The financial statements for the year ended December 31, 2014 have been prepared in accordance with CPA Canada Handbook section 4600, *Pension Plans*. For matters not addressed in section 4600, International Financial Reporting Standards (IFRS) guidance has been implemented.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial instruments which have been measured 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 noted.

3. Significant Accounting Policies

The following accounting policies are considered to be significant:

Basis of accounting

These financial statements are prepared on a going concern basis and present the financial position of the Plan as a separate entity independent of WCB 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.

Investments

Short-term investments, bonds and debentures, equities and pooled funds are recorded at fair value. The fair values of equities are determined based on the quoted market values, based on the latest bid prices. The fair value of pooled equity funds are based on the quoted market value of the underlying investments, based on latest bid prices. The fair value of short-term investments and bonds and debentures are based on model pricing techniques that effectively discount prospective cash flows to present value taking into consideration duration, credit quality and liquidity. Transactions are recorded as of the trade date.

Change in fair value of investments

The change in fair value of investments reflects the current year's change in increase (decrease) in fair value of investments.

Investment transactions and income

Investment transactions are recorded on the trade date. Investment income, which is recorded on an accrual basis, includes interest income, dividends, pooled fund distributions and net gains or losses from the sale of securities. Monetary items denominated in foreign currency are translated at the exchange rate in effect at year end. Gains and losses resulting from translations are included in the change in fair value of investments. Brokers' commission and other transaction costs are recognized in the statement of changes in net assets available for benefits.

Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for pension plans required management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the recorded amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the valuation of investments and pension obligations. Actual results could differ from these estimates.

4. Objectives, Policies, and Processes for Managing Capital

The Plan's capital consists of the investment assets managed under the authority of the Saskatchewan Workers' Compensation Board. The objective of the Plan is to meet the present and future pension obligations accumulated on behalf of the Plan's participants.

5. Investments

a) Short-term investments

Short-term investments are comprised of T-Bills, notes and commercial paper with effective interest rates of 0.9 per cent to 1.3 per cent (2013 – 0.9 per cent to 1.2 per cent) and an average remaining term to maturity of 160 (2013 - 65) days. The Plan's investment policy states that investments must meet a minimum investment standard of "R-1" rating, as rated by a recognized credit rating service. Other than the Government of Canada no single issuer represents more than 21.5 per cent of the fair value (2013 – 27.9 per cent) of the short-term investment portfolio.

b) Bonds and debentures

The Plan's investment policy states that bonds and debentures must meet a minimum quality standard of BBB as rated by a recognized credit rating service. No more than 15 per cent of the bond portfolio may be invested in BBB rated bonds. As at December 31, 2014, the Plan held 9.09 per cent (2013 – 9.76 per cent) of its portfolio in BBB bonds.

2014							
(Thousands of \$)							
Years to Maturity	Federal	Provincial	Municipal	Corporate	Total	Yield to Maturity at Market	Coupon Rate
Under 5	\$ 2,355	\$ 54	\$ -	\$ 3,972	\$ 6,381	1.3-5.0%	1.3-5.3%
5 – 10	251	1,301	-	1,416	2,968	2.3-6.1%	2.4-7.2%
Over 10	728	2,569	61	1,126	4,484	3.0-5.8%	3.5-8.3%
Fair Value	\$ 3,334	\$ 3,924	\$ 61	\$ 6,514	\$13,833		

2013							
(Thousands of \$)							
Years to Maturity	Federal	Provincial	Municipal	Corporate	Total	Yield to Maturity at Market	Coupon Rate
Under 5	\$ 2,127	\$ -	\$ 668	\$ 3,168	\$ 5,963	1.3-5.6%	1.3-6.0%
5 – 10	943	1,778	-	1,183	3,904	2.7-6.1%	2.6-7.2%
Over 10	524	2,183	291	950	3,948	3.5-6.2%	3.4-8.3%
Fair Value	\$ 3,594	\$ 3,961	\$ 959	\$ 5,301	\$13,815		

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

c) Equities

The Plan's equity investments are held as portfolio investments and are generally readily marketable. Investments are generally limited to stocks that are publicly traded on a recognized securities market. The Plan's equities include common shares that have no fixed maturity dates and are generally not directly exposed to interest rate risk. Dividends are generally declared on a quarterly basis. The average effective dividend rate is 2.32 per cent (2013 – 2.51 per cent).

The Plan's investment policy allows any single holding to represent no more than 10 per cent of the fair value of the related portfolio and any single holding to represent no more than 10 per cent of the common stock in any corporation.

d) Pooled equity funds

The Plan limits its investments in pooled equity funds to 10 per cent of the market value of each fund. The Plan owns units in pooled equity funds which have no fixed interest rate and whose return is based on the success of the fund manager. Exceptions to the 10 per cent limit are allowed if provision has been made to transfer securities in kind out of the pooled fund when assets are transferred out of the pooled fund.

The Plan's pooled equity funds are comprised of the following:

	<u>2014</u>	<u>2013</u>
	(thousands of \$)	
US Equity Fund	\$ 5,439	\$ 5,370
Global Equity Fund	5,018	5,409
	<u>\$10,457</u>	<u>\$10,779</u>

e) Fair value hierarchy

The Plan has classified its 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 equity investments that are classified as Level 1. The Plan also holds short-term investments, bonds, debentures and pooled funds that are classified as Level 2. During the year, no investments were transferred between levels.

6. Due from General Revenue Fund

The Plan's bank account is included in the Consolidated Offset Bank Concentration 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 30-day borrowing rate and the Plan's average daily bank account balance. The Government's average 30-day borrowing rate in 2014 was 0.96 per cent (2013 – 1.05 per cent).

7. Pension Obligations

Pension obligations are determined using the projected benefit method pro-rated on service and management's best estimate assumptions approved by the WCB of expected plan investment performance, discount rate, salary escalation, inflation rate, and post-retirement indexing rate and retirement ages of employees. The actual results may vary significantly from the long-term assumption used. The last filed actuarial valuation was prepared as of December 31, 2012 and extrapolated to December 31, 2014 by The Segal Company, Ltd. The next required valuation is due December 31, 2015.

The assumptions used in determining the actuarial value of pension obligations were:

	<u>2014</u>	<u>2013</u>
Discount rate	3.80%	4.50%
Inflation rate	2.00%	2.50%

The pension obligations contain a provision for pension increases of the lesser of 1.5 per cent and 50 per cent of the rate of increase, if any, in the year-over-year increase in the Consumer Price Index.

The discount rate selected is based upon the rate of return that would be obtained in a portfolio of high quality corporate bonds with cash flows matching the anticipated duration of the pension obligations. During the current year the plan changed the discount rate being used based upon changes to market interest rates.

An increase in the discount rate by one per cent is expected to decrease the liability by 10.58 per cent. In contrast, a decrease in the discount rate is expected to increase the liability by 12.87 per cent.

If there are insufficient funds in the Plan to pay pension obligations, the WCB is obligated to pay any such deficiency to the Plan.

8. 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 Board. 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 Board reviews regular compliance reports from its investment managers as to their compliance with the investment policy. The Board also reviews regular compliance reports from the 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 is limited to the carrying value of the financial assets summarized as follows:

	<u>2014</u>	<u>2013</u>
	(thousands of \$)	
Cash	\$ 13	\$ 35
Accrued Investment Income	100	105
Fixed income investments ¹	16,079	15,404
Due from the General Revenue Fund	920	524

¹Includes short-term investments and bonds and debentures

Accrued investment income is received on the next scheduled payment date, generally either annually or semi-annually.

Credit risk within investments is primarily related to short-term investments and bonds and debentures. It is managed through the investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds, 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.

Credit rating for bonds and debentures are as follows:

Credit Rating	2014		2013	
	Fair Value (thousands of \$)	Makeup of Portfolio (%)	Fair Value (thousands of \$)	Makeup of Portfolio (%)
AAA	\$ 4,249	30.7	\$ 5,087	36.8
AA	4,842	35.0	4,722	34.2
AH	0	0	140	1.0
A	3,485	25.2	2,518	18.2
BBB	1,257	9.1	1,348	9.8
Total	<u>\$13,833</u>	<u>100.0</u>	<u>\$13,815</u>	<u>100.0</u>

Within bonds and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 4.8 per cent (2013 – 4.5 per cent) of the market value of the combined bonds and debentures and short-term investment portfolios. No one holding of a province is over 11.1 per cent (2013 – 8.6 per cent) of the market value of the bond and debenture portfolio.

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, including short-term investments and bonds and debentures. 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 surplus at December 31, 2014 by \$0.83 million (2013 - \$0.94 million) representing 6.0 per cent (2013 - 6.8 per cent) of the \$13.83 million (2013 - \$13.82 million) fair value of bonds and debentures.

Foreign exchange risk

The Plan is subject to changes in the U.S./Canadian dollar exchange rate for U.S. denominated investments. Also, the Plan is exposed to Non-North American currencies through its investment in a global equity pooled fund. Exposure to both U.S. and Non-North American pooled equity funds and equities is limited to a combined maximum of 32 per cent of the market value of the total investment portfolio. At December 31, 2014, the Plan's exposure to U.S. equities was 15.0 per cent (2013 - 15.3 per cent) and its exposure to a Non-North American pooled equity fund was 13.8 per cent (2013 - 15.2 per cent) for a total exposure of 28.8 per cent (2013 - 30.5 per cent).

At December 31, 2014, a 10 per cent change in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a \$0.5 million (2013 - \$0.5 million) change in net assets available for benefits and surplus. A 10 per cent change in the Canadian dollar versus the Non-North American currencies would result in approximately a \$0.5 million (2013 - \$0.5 million) change in net assets available for benefits and surplus.

Equity price risk

The Plan is exposed to changes in equity prices in Canadian, U.S. and Non-North American markets. Equities and pooled equity funds comprise 55.7 per cent (2013 - 56.3 per cent) of the carrying value of the Plan's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 7.3 per cent (2013 - 8.4 per cent) of the market value of the Plan's common share portfolio. As well, no one holding represents more than 10 per cent (2013 - 10 per cent) of the voting shares of any corporation.

The following table indicates the approximate change that could be anticipated to both the increase in net assets available for benefits and deficit based on changes in the Plan's benchmark indices at December 31, 2014:

	(Change in thousands of \$)	
	<u>10% increase</u>	<u>10% decrease</u>
S&P/TSX Composite Index	\$ 978	\$ (978)
S&P 500 Index	544	(544)
MSCI EAFE Index	502	(502)

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.

9. 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 influence by the Government of Saskatchewan. As at December 31, 2014, the Plan held \$201,317 (2013 – \$290,516) in Government of Saskatchewan bonds with net earnings of \$13,703 (2013 - \$14,672). Certain administration expenses are paid by the Plan to the Public Employees Benefits Agency Revolving Fund based upon agreed exchange amounts. The amount is identified in Note 12. Included in accounts payable is an amount of \$4,587 (2013 - \$4,707) payable to the Public Employees Benefits Agency Revolving Fund.

10. 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 Board. The Board 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:

	Annual Return		Rolling Four-Year Average Annual Return	
	2014	2013	2014	2013
Plan's actual rate of return	10.49%	13.54%	7.30%	7.33%
Target rate of return	10.04%	10.98%	7.33%	7.08%

The annual returns are before deducting investment expenses.

11. Administration Expenses

	2014	2013
	(Thousands of \$)	
Administration - PEBA Revolving Fund	\$ 55	\$ 88
Custodial fees - RBC Investor Services Trust	20	22
Investment management fees – Greystone	56	52
	<u>\$ 131</u>	<u>\$ 162</u>

12. Fair Value of Financial Assets and Financial Liabilities

For the following financial assets and liabilities the carrying amounts approximate fair value due to their immediate or short-term nature:

- Cash;
- Accrued investment income;
- Due from General Revenue Fund; and
- Accounts payable and accrued liabilities.

Fair values of investments are disclosed in Note 5.

13. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.