DRAFT Fund Financial Statements of

THE LONDON TRANSIT COMMISSION EMPLOYEES' PENSION PLAN

Year ended December 31, 2018

INDEPENDENT AUDITORS' REPORT

To the Administrator

Opinion

We have audited the fund financial statements of The London Transit Commission Employees' Pension Plan (the Plan), which comprise:

- the statement of net assets available for benefits as at end of December 31, 2018
- 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.

(Hereinafter referred to as the “financial statements”)

In our opinion, the accompanying financial statements present fairly, in all material respects, the net assets available for the Plan as at end of December 31, 2018, and its changes in net assets available for benefits for the year then ended in accordance with the financial reporting provisions of Section 76 of Regulation 909 of the Pension Benefits Act (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 “***Auditors’ Responsibilities for the Audit of the Financial Statements***” section of our auditors’ 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 – Financial Reporting Framework

We draw attention to Note 2(a) in the financial statements, which describes the applicable financial reporting framework.

The financial statements are prepared to assist the Administrator of the Plan to meet the requirements of Section 76 of Regulation 909 of the Pension Benefits Act (Ontario).

As a result, the financial statements may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provisions of Section 76 of Regulation 909 of the Pension Benefits Act (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.

Auditors’ 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 auditors’ 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 the 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 auditors' 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 auditors' 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.

- 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.

Chartered Professional Accountants, Licensed Public Accountants

London, Canada

THE LONDON TRANSIT COMMISSION EMPLOYEES' PENSION PLAN

Statement of Net Assets Available for Benefits

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December 31, 2018, with comparative information for 2017

	2018	2017
Assets		
Investment in pooled fund (note 4)	$ 6,585,834	$ 7,081,713
Liabilities		
Accrued liabilities	43,100	60,218
Net assets available for benefits	$ 6,542,734	$ 7,021,495

See accompanying notes to fund financial statements.

THE LONDON TRANSIT COMMISSION EMPLOYEES' PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

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Year ended December 31, 2018, with comparative information for 2017

	2018	2017
Increase in net assets:		
Investment income	$ 90,042	$ 26,481
Net realized gain on sales of investments	169,793	535,036
Change in net unrealized gain on investments	-	18,671
	259,835	580,188
Decrease in net assets:		
Pension annuities purchased	193,893	623,929
Administrative expenses (note 5)	86,145	91,854
Death benefits	-	35,448
Change in net unrealized loss on investments	458,558	-
	738,596	751,231
Decrease in net assets	(478,761)	(171,043)
Net assets available for benefits, beginning of year	7,021,495	7,192,538
Net assets available for benefits, end of year	$ 6,542,734	$ 7,021,495

See accompanying notes to fund financial statements.

1. Description of plan:

The fund financial statements present the activity of The London Transit Commission Employees' Pension Plan (the "Plan"). The following description of the Plan is a summary only. For more complete information reference should be made to the Pension Plan agreement registered as a defined benefit plan under the Pension Benefits Act (Ontario), registration number 269753.

The Plan, as amended February 1, 1989, provides defined benefits in respect of services rendered on or after January 1, 1987, up to and including January 31, 1989. Pension benefits accrued to December 31, 1986 are covered under a fully insured group annuity policy and the liability and related assets are not reflected in these financial statements. The benefits to be provided include the liability relating to the provisions of a 60% surviving spouse option.

Post January 31, 1989, pension benefits for active members are provided by the Ontario Municipal Employee Retirement System. The liability and related assets are not reflected in these fund financial statements.

For disabled employees, the Plan in effect prior to February 1, 1989, remains in force. The respective assets relating to services provided on or after January 1, 1987, for these members, are reflected in these fund financial statements. Pre January 1, 1987, pension benefits are provided under a fully insured group annuity policy and the liability and related assets are not reflected in these fund financial statements. The benefits to be provided include the liability relating to the provision of the surviving spouse option.

2. Basis of preparation:

(a) Basis of presentation:

As permitted under Section 76 of Regulation 909 of the Pension Benefits Act (Ontario), the Plan has prepared these fund financial statements in accordance with Canadian accounting standards for pension plans excluding pension obligations and any resulting surplus or deficit.

In selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, the Plan complies on a consistent basis with Canadian accounting standards for private enterprises ("ASPE") in Part II of the CPA Canada Handbook - Accounting.

2. Basis of preparation (continued):

(a) Basis of presentation (continued):

These fund financial statements of the Plan do not purport to show the adequacy of the Plan's assets to meet its pension obligation. Such an assessment requires additional information, such as the Plan's actuarial reports and information about the sponsor's financial health.

These fund financial statements have been prepared to assist the Administrator of The London Transit Commission Employees' Pension Plan meet the requirements of the Financial Services Commission of Ontario. As a result, these fund financial statements may not be suitable for another purpose.

(b) Basis of measurement:

The fund financial statements have been prepared on the historical cost basis, except for investments which are measured at fair value through the statement of changes in net assets available for benefits.

(c) Use of estimates and judgments:

The preparation of fund financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of financial assets and financial liabilities at the date of the financial statements and the reported amounts of changes in net assets during the year. Actual results could differ from these estimates.

3. Significant accounting policies:

(a) Financial assets and financial liabilities:

Investment transactions are recognized initially on the trade date, which is the date that the Plan becomes a party to the contractual provisions of the instrument.

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 change in net unrealized gain (loss) on investments.

Accrued liabilities are measured at amortized cost.

3. Significant accounting policies (continued):

(b) Net realized gain or loss on sale of investments:

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

(c) Investment income:

Investment income, which is recorded on an accrual basis, includes pooled fund distributions.

(d) Fair value measurement:

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

In determining fair value, the Plan has adopted the guidance in IFRS 13, Fair Value Measurement ("IFRS 13"), in Part I of the CPA Canada Handbook- Accounting. As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The Plan uses closing market price as a practical expedient for fair value measurement.

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

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

3. Significant accounting policies (continued):

(d) Fair value measurement (continued):

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Fair values of investments are determined as follows:

Pooled funds 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) Income taxes:

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

(f) Capital disclosure:

The main objective of the Plan is to sustain a certain level of net assets in order to meet the pension obligations of the London Transit Commission (the "Commission"), which are not presented or discussed in these specified-purpose financial statements. The Plan fulfils its primary objective by adhering to specific investment policies outlined in its Statement of Investment Polices and Procedures (the "SIPP"). The SIPP was last amended January 1, 2016, to update for various administrative changes. The Plan manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and any new funds in accordance with the approved SIPP.

Although there are no regulatory requirements relating to the level of net assets, the funding to be maintained by the Plan is determined through tri-annual actuarial valuations. The Plan is required to file financial statements with the Financial Services Commission of Ontario.

4. Investment in pooled fund:

The following summary of investments includes information in respect of individual investments with a cost or fair value in excess of 1% of the cost or fair value of the Plan, as required by the Ontario Pension Benefits Act.

Pooled fund investment:

Fund name	Fund operator	Nature of investments held	Fair value 2018	Fair value 2017
Manulife Asset Management Diversified Fund	Manulife Asset Management Ltd.	Balanced	$ 6,585,834	$ 7,081,713

Fund name	Fund operator	Nature of investments held	Cost 2018	Cost 2017
Manulife Asset Management Diversified Fund	Manulife Asset Management Ltd.	Balanced	$ 2,961,948	$ 2,999,269

5. Administrative expenses:

	2018	2017
Investment management fees	$ 38,623	$ 38,761
Administration	4,613	14,628
Audit fees	10,156	10,187
Actuarial consulting fees	32,753	28,278
	$ 86,145	$ 91,854

6. Actuarial valuations:

Actuarial valuations are prepared and filed as required by the Financial Services Commission of Ontario, and the provisions of the Income Tax Act (Canada) and regulations thereto, to estimate the surplus or deficit for the Plan and to determine required contributions. The last triannual actuarial valuation, performed by Manulife, the Company's actuary, so filed at January 1, 2016 indicated that, on a solvency basis using the accrued benefit method, the Plan had an actuarial surplus estimated at $3,175,900 and, accordingly, no employer contributions are required.

7. Financial instruments:

(a) Fair values:

The fair values of investments are described in note 4. The fair values of other financial assets and liabilities, being accrued liabilities, approximate their carrying values due to the short-term nature of these instruments.

Fair value measurements recognized in the statement of net assets available for benefits are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

(i) Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;

(ii) Level 2 - inputs other than quoted prices included in Level 1 that are observable for the assets and liability, either directly or indirectly; and

(iii) Level 3 - inputs for assets and liabilities that are not based on observable market data.

The Plan's investment in pooled fund is categorized as Level 2. There were no transfers of investments between classifications during the year.

7. Financial instruments (continued):

(b) Associated risks:

(i) Market price risk:

Market price risk is the risk that value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issue or all other factors affecting all instruments traded in the market.

As all of the Plan’s financial instruments are carried at fair value with fair value changes recognized in the statement of changes in net assets available for benefits, all changes in market conditions will directly affect the change in net assets.

Market price risk is managed by the Administrator through the Fund operator's construction of a diversified portfolio of instruments traded on various markets and across various industries.

As at December 31, 2018, had the value of the equity portfolio increased or decreased by 10% with all other variables remaining unchanged, net assets of the Plan would have increased or decreased respectively, by approximately $400,600 (2017 - $459,300).

(ii) Foreign currency risk:

Foreign currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The Plan invests in financial instruments which enter into transactions denominated in U.S. dollars. Consequently, the Plan is exposed to risks that the exchange rate of the foreign currency may change in a manner that has an adverse affect on the value of the portion of the Plan’s assets or liabilities denominated in currencies other than Canadian dollars.

The Plan’s overall currency positions and exposures are monitored on a regular basis by the Fund operator who reports quarterly to the Administrator.

As at December 31, 2018, if the Canadian dollar had strengthened or weakened by 5% in relation to foreign currencies held by the Plan, with all other variables held constant, net assets of the Plan would have decreased or increased respectively, by approximately $101,300 (2017 - $115,800).

7. Financial instruments (continued):

(b) Associated risks (continued):

(iii) Liquidity risk:

Liquidity risk is the risk that the Plan will not be able to meet its obligations as they fall due. The Plan is principally responsible for funding of the benefit payments as they are due. The Plan maintains an investment policy, as approved by the Administrator, which contains asset mix guidelines which help to ensure the Plan is able to liquidate investments to meet its pension benefit or other obligations.

(iv) Interest rate risk:

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's net assets and changes in net assets available for benefits. The value of the Plan's assets is affected by changes in interest rates and equity markets. Interest rate changes directly impact the value of fixed income securities held within the pooled fund.

At December 31, 2018, had the prevailing interest rates increased or decreased by 1% with all other variables held constant, net assets of the Plan would have decreased or increased respectively, by approximately $133,100 (2017 - $140,200).