

Financial Statements of

**THE EDMONTON PIPE INDUSTRY  
HEALTH AND WELFARE FUND**

Year ended December 31, 2015



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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees of The Edmonton Pipe Industry Health and Welfare Fund

We have audited the accompanying financial statements of The Edmonton Pipe Industry Health and Welfare Fund, which comprise the statement of financial position as at December 31, 2015, and the statement of changes in net assets available for benefits 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.

### *Auditors' 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 Edmonton Pipe Industry Health and Welfare Fund as at December 31, 2015, and the changes in its net assets available for benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

*KPMG LLP*

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a long, horizontal, slightly curved line that tapers at both ends, resembling a flourish or a signature line.

Chartered Professional Accountants

May 18, 2016  
Edmonton, Canada

# **THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND**

## Financial Statements

Year ended December 31, 2015

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# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

## Statement of Financial Position

December 31, 2015, with comparative information for 2014

	2015	2014
<b>ASSETS</b>		
Cash	\$ 11,335,588	\$ 13,105,776
Investments (note 4)	114,790,309	110,871,478
Contributions receivable - employer	2,063,342	2,030,727
Accrued investment income	7,924	11,267
Prepaid expenses and deposits	1,099,177	3,705
Due from The Edmonton Pipe Industry Pension Trust Fund (note 5)	46,211	23,946
	<u>129,342,551</u>	<u>126,046,899</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	2,628,889	1,745,049
Amounts due to other health and welfare funds (note 6)	359,244	380,410
Reserve for unpaid claims	2,057,423	2,501,395
Reserve for advance contributions	46,107	31,000
	<u>5,091,663</u>	<u>4,657,854</u>
Net assets available for benefits (note 7)	<u>\$ 124,250,888</u>	<u>\$ 121,389,045</u>

See accompanying notes to financial statements.

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

## Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Increase in net assets:		
Investment income (note 8)	\$ 4,062,291	\$ 5,787,429
Employer contributions	29,202,855	31,452,694
Decrease in reserve for unpaid claims	443,972	-
Members' and pensioners' cash contributions	1,188,393	1,121,352
Members' optional insurance contributions	49,837	52,603
Reciprocal transfers from other health and welfare funds (note 6)	573,048	381,832
	<u>35,520,396</u>	<u>38,795,910</u>
Decrease in net assets:		
Health, dental, vision and short-term disability claims paid	21,978,821	19,668,691
Long-term disability premiums	1,988,161	2,271,852
Life insurance premiums	2,883,958	2,274,290
Accidental death and dismemberment premiums	398,201	413,203
Claims administration fees	971,882	831,089
Employee assistance program	344,712	281,225
Out-of-country insurance claims	320,271	469,680
Members' optional life insurance premiums	50,605	44,005
Increase in reserve for unpaid claims	-	247,709
Reciprocal transfers to other health and welfare funds (note 6)	2,568,366	4,237,975
Investment manager and custodian fees	280,319	279,517
Administrative expenses (note 9)	873,257	815,466
	<u>32,658,553</u>	<u>31,834,702</u>
Increase in net assets available for benefits	2,861,843	6,961,208
Net assets available for benefits, beginning of year	121,389,045	114,427,837
Net assets available for benefits, end of year	<u>\$ 124,250,888</u>	<u>\$ 121,389,045</u>

See accompanying notes to financial statements.

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements

Year ended December 31, 2015

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## 1. Nature of the Fund:

The United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry of the United States and Canada, Local 488 (the "Union") and the Construction Labour Relations - an Alberta Association Mechanical (Provincial) Trade Division Pursuant to Registration Certificate No. 27 (the "Party Employers") entered into an agreement and declaration of trust dated May 7, 1965 (the "Health and Welfare Trust Agreement") which has been amended and restated as of August 13, 2007. The Health and Welfare Trust Agreement provides for the establishment, maintenance, investment and administration of a fund known as The Edmonton Pipe Industry Health and Welfare Fund (the "Health and Welfare Fund"), created pursuant to The Edmonton Pipe Industry Health and Welfare Plan (the "Health and Welfare Plan") which includes all restatements and amendments to May 1, 2015. The Health and Welfare Plan itself was established pursuant to a collective agreement between the Union and the Party Employers dated May 7, 1965 (the "Collective Agreement") and renewed for the period until April 30, 2019. Employers contribute to the Health and Welfare Fund at the rate specified in a collective agreement.

Members are not required to contribute to the Health and Welfare Fund. Employers contribute to the Health and Welfare Fund at the rate specified in a collective agreement. Benefits provided under the Health and Welfare Plan are paid from the Health and Welfare Fund.

For more complete information, reference should be made to the Health and Welfare Trust Agreement, and the Health and Welfare Plan documents.

The benefits provided by the Health and Welfare Plan are funded using a variety of methods as set out below:

- (a) health, dental, vision and short-term disability benefits are funded solely by the assets of the Health and Welfare Fund;
- (b) long-term disability, accidental death and dismemberment, and optional life insurance benefits are provided Great West Life under a contract of insurance which uses a pooled funding method;
- (c) member and dependent life insurance benefits are provided under contract with Great West Life. This contract has a hold-harmless provision which may require that the Health and Welfare Fund pay any shortfall of premiums which are insufficient to pay claims;
- (d) administration of the out-of-country insurance is arranged under contract with Global Excel;  
and

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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## 1. Nature of the Fund (continued):

- (e) the employee assistance program is administered by the Construction Employees Family Assistance Program.

The Board of Trustees reserves the right to amend or terminate any of the benefits under the Health and Welfare Plan.

## 2. Basis of preparation:

- (a) Basis of presentation:

These financial statements have been prepared by management in accordance with Canadian accounting standards for pension plans, which are also applicable to entities such as the Health and Welfare Fund that provide benefits other than pensions, and present information about the aggregate financial position of the Health and Welfare Fund and the net assets available to meet benefit payments.

In selecting or changing accounting policies that do not relate to its investment portfolio, Canadian accounting standards for pension plans require the Health and Welfare Fund to comply (on a consistent basis) with either International Financial Reporting Standards ("IFRS") in Part I of the CPA Canada Handbook - Accounting or Canadian Accounting Standards for Private Enterprises in Part II of the CPA Canada Handbook - Accounting. The Health and Welfare Fund has chosen to comply on a consistent basis with IFRS.

These financial statements are prepared to assist Health and Welfare Plan members and others in reviewing the financial activities of the Health and Welfare Fund for the fiscal period but they do not portray the financial position of the Health and Welfare Plan, its funding requirements nor the benefit security of individual Health and Welfare Plan members.

- (b) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for financial instruments which are recorded at fair value through changes in net assets available for benefits.

- (c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Health and Welfare Fund's functional currency.

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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## 2. Basis of preparation (continued):

### (d) Use of estimates and judgments:

The preparation of the financial statements in conformity with Canadian accounting standards for pension plans requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the statement of financial position and the reported amounts of changes in net assets available for benefits during the year. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

## 3. Significant accounting policies:

### (a) Foreign currency:

Transactions in foreign currencies are translated into Canadian dollars at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Canadian dollars at the exchange rate at that date.

Foreign currency differences arising on translation are recognized in the statement of changes in net assets available for benefits as changes in net unrealized gains.

### (b) Investment transactions, income recognition and transaction costs:

#### (i) Investment transactions:

Investment transactions are accounted for on a settlement date basis.

#### (ii) Income recognition:

Income from investments is recorded on an accrual basis and includes interest and pooled investment income.

#### (a) Interest:

Interest income, including interest income from non-derivative financial assets at fair value through profit or loss, is recognized in the statement of changes in net assets available for benefits, using the effective interest method.

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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### 3. Significant accounting policies (continued):

(b) Investment transactions, income recognition and transaction costs (continued):

(ii) Income recognition (continued):

(b) Pooled investment income:

Income from pooled investments is comprised of interest, dividends and realized gains from Canadian and foreign sources and is recognized in the statement of changes in net assets available for benefits when earned.

(iii) Transaction costs:

Brokers' commissions and other transaction costs are recognized in the statement of changes in net assets available for benefits when incurred.

(c) Financial assets and financial liabilities:

(i) Non-derivative financial assets:

Financial assets are recognized initially on the trade date, which is the date that the Health and Welfare Fund becomes a party to the contractual provisions of the instrument.

The Health and Welfare Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Health and Welfare Fund neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset, and consideration received is recognized in the statement of changes in net assets available for benefits as a net realized gain on sale of investments.

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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### 3. Significant accounting policies (continued):

(c) Financial assets and financial liabilities (continued):

(i) Non-derivative financial assets (continued):

The Health and Welfare Fund classifies all of its financial assets at fair value through the statement of changes in net assets available for benefits if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through the statement of changes in net assets available for benefits if the Health and Welfare Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Health and Welfare Fund's documented Statement of Investment Policies and Procedures. Upon initial recognition, attributable transaction costs are recognized in the statement of changes in net assets available for benefits as incurred. Financial assets recognized at fair value through changes in net assets available for benefits are measured at fair value and changes therein are recognized in the statement of changes in net assets available for benefits.

(ii) Financial liabilities:

All financial liabilities are recognized initially on the trade date at which the Health and Welfare Fund becomes a party to the contractual provisions of the instrument.

The Health and Welfare Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when the Health and Welfare Fund has a legal right to offset the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Health and Welfare Fund considers its accounts payable and accrued liabilities and amounts due to other health and welfare funds to be financial liabilities.

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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### 3. Significant accounting policies (continued):

(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 Health and Welfare Fund has adopted the guidance in IFRS 13, Fair Value Measurement ("IFRS 13"), in Part I of the CPA Canada Handbook. 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 Health and Welfare Fund uses closing market price as a practical expedient for fair value measurement.

When available, the Health and Welfare Fund 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 Health and Welfare Fund 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.

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 changes in net assets available for benefits 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.

All changes in fair value, other than interest and dividend income and expense, are recognized in the statement of changes in net assets available for benefits as part of the change in net unrealized gains.

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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### 3. Significant accounting policies (continued):

(d) Fair value measurement (continued):

Fair values of investments are determined as follows:

Cash is recorded at cost, which together with accrued interest income approximates fair value.

Bonds and equities are valued at year-end quoted closing prices where available. Where quoted prices are not available, estimated fair values are calculated using comparable securities.

Short-term notes, treasury bills and term deposits maturing within a year are stated at cost, which together with accrued interest income approximates fair value given the short-term nature of these investments.

Guaranteed investment certificates, term deposits maturing after a year, mortgages and real estate debentures are valued at the present value of estimated future cash flows discounted at interest rates in effect on the last business day of the year for investments of a similar type, quality and maturity.

Pooled funds are valued at the unit values supplied by the pooled fund administrator, which represents the Health and Welfare Fund's proportionate share of underlying net assets at fair values determined using closing market prices.

(e) Common expenses:

Certain expenses are shared equally between the Health and Welfare Fund and the The Edmonton Pipe Industry Pension Trust Fund (the "Pension Fund"), an organization operating out of the same premises and under the same Board of Trustees and management.

(f) Income taxes:

The Health and Welfare Fund is a trust recognized administratively by the Canada Revenue Agency. Investment income earned by the Health and Welfare Fund, net of eligible deductions, is subject to income tax.

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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## 4. Investments:

	2015	2014
Phillips, Hager & North - Short Term Bond & Mortgage Fund	\$ 69,053,981	\$ 67,219,291
Letko Brosseau & Associates - Balanced Fund	45,736,328	43,652,187
	\$ 114,790,309	\$ 110,871,478

## 5. Due from The Edmonton Pipe Industry Pension Trust Fund:

The amount due from the Pension Fund is non-interest bearing, unsecured and has no set terms of repayment.

## 6. Reciprocal agreements with other health and welfare funds:

The Health and Welfare Fund has entered into reciprocal agreements with other health and welfare funds. These agreements provide that contributions received on account of employees working in a jurisdiction other than their local union are remitted on a monthly basis to the local union of which they are a member.

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

## 7. Net assets available for benefits:

	2015	2014
Reserves for future plan benefits	\$ 54,519,545	\$ 50,365,312
Reserves for adverse claims fluctuations	3,283,438	-
Unallocated	66,447,905	71,023,733
	<b>\$ 124,250,888</b>	<b>\$ 121,389,045</b>

The reserve for future plan benefits is a provision established by the Trustees to support the payment of benefits to members and their beneficiaries. The reserve for future plan benefits is comprised of two components calculated as follows:

- (a) For active members, an estimated provision based on (i) the average actual cost of benefits for such members for the 12 months ended December 31, 2015 multiplied by (ii) the estimated number of months of coverage determined by dividing the accumulated hour bank for all active members by 130 hours; and
- (b) For retired, disabled and widows of deceased members, an estimated provision based on (i) the average actual cost of benefits for such group of persons for the 12 months ended December 31, 2015 multiplied by (ii) 60 months.

The reserve for adverse claims fluctuations was established in the current year by the Trustees to consider the risk that future claims in the aggregate will be higher than the amount supported by current funding rates. The reserve for adverse claims fluctuations has been established at approximately 15% of benefit claims paid in the most recent fiscal year.

## 8. Investment income:

	2015	2014
Interest income	\$ 110,547	\$ 122,260
Phillips, Hager & North Short Term Bond & Mortgage Fund - interest and realized capital gains	1,919,099	1,797,629
Letko Brosseau & Associates Balanced Fund - interest, dividends and realized capital gains	1,085,798	1,010,917
Changes in net unrealized gains on investments	946,847	2,856,623
	<b>\$ 4,062,291</b>	<b>\$ 5,787,429</b>

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

## 9. Administrative expenses:

	2015	2014
Direct expenses:		
Administration fees	\$ 443,376	\$ 399,020
Consulting fees	91,026	64,292
Independent trustees fees	39,900	38,676
Audit	39,644	25,258
Non-deductible GST and HST	26,373	16,412
Bank charges	23,632	44,741
Computer maintenance	15,205	14,490
Legal	8,949	6,831
Insurance	7,620	-
Office expenses	6,171	35,830
Donations	-	5,000
	<u>701,896</u>	<u>650,550</u>
Common expenses shared equally with the Pension Trust Fund (note 3(e)):		
Rent	127,932	127,932
Office expenses	83,038	71,704
Annual report to members	70,478	62,400
Travel, conferences and meeting expenses	16,666	32,202
Postage	39,744	31,144
Other shared expenses	4,864	4,450
	<u>342,722</u>	<u>329,832</u>
Less Pension Trust Fund share	<u>(171,361)</u>	<u>(164,916)</u>
	171,361	164,916
	<u>\$ 873,257</u>	<u>\$ 815,466</u>

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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## 10. Capital risk management:

The main objective of the Health and Welfare Fund is to sustain a certain level of net assets in order to meet the health and welfare obligations of the Health and Welfare Plan, which are not presented or discussed in these financial statements. The Health and Welfare Fund fulfils its primary objective by adhering to specific investment policies outlined in its Statement of Investment Policies and Procedures, which is reviewed annually by the Health and Welfare Fund Trustees. The Health and Welfare Fund manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds in accordance with the approved SIPP. Increases in net assets are a direct result of investment income generated by investments held by the Health and Welfare Fund and contributions into the Health and Welfare Fund by the employers. The main use of net assets is for benefit payments to eligible Health and Welfare Plan members.

## 11. Financial instruments:

### (a) Fair values:

The fair values of investments are as described in note 3(d). The fair values of other financial assets and liabilities, being cash, contributions receivable - employers, accrued investment income, due from The Edmonton Pipe Industry Pension Trust Fund, accounts payable and accrued liabilities and amounts due to other health and welfare funds approximate their carrying values due to the short-term nature of these financial 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.

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

There were no significant transfers between Level 1, Level 2 and Level 3 during the year ended December 31, 2015.

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

## 11. Financial instruments (continued):

(a) Fair values (continued):

The following table illustrates the classification of the Pension Fund's financial instruments using the fair value hierarchy as at December 31, 2015:

December 31, 2015	Level 1	Level 2	Level 3	Total
Phillips, Hager & North - Short Term Bond & Mortgage Fund	\$ -	\$ 69,053,981	\$ -	\$ 69,053,981
Letko Brosseau & Associates - Balanced Fund	-	45,736,328	-	45,736,328
	\$ -	\$ 114,790,309	\$ -	\$ 114,790,309

December 31, 2014	Level 1	Level 2	Level 3	Total
Phillips, Hager & North - Short Term Bond & Mortgage Fund	\$ -	\$ 67,219,291	\$ -	\$ 67,219,291
Letko Brosseau & Associates - Balanced Fund	-	43,652,187	-	43,652,187
	\$ -	\$ 110,871,478	\$ -	\$ 110,871,478

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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## 11. Financial instruments (continued):

(b) Associated risks:

(i) Market price risk:

Market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. As all of the Health and Welfare Fund'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 result in an increase (decrease) in net assets. Market price risk is managed by the Health and Welfare Fund through construction of a diversified portfolio of instruments traded on various markets and across various industries.

(ii) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Health and Welfare Fund maintains cash on hand for liquidity purposes and to pay accounts payable and accrued liabilities. At December 31, 2015, the Health and Welfare Fund had cash on hand in the amount of \$11,335,588 (2014 - \$13,105,776).

(iii) Foreign currency risk:

Foreign currency risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Health and Welfare Fund is exposed to risks arising from its holdings of foreign currency denominated equities and fixed income securities whereby the exchange rate of foreign currency may change in a manner that has an adverse effect on the value of investments denominated in currencies other than Canadian dollars. Such risk is mitigated by the diversification of the balanced fund's investments across many jurisdictions including Canada.

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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## 11. Financial instruments (continued):

(b) Associated risks (continued):

(iv) 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 Health and Welfare Fund. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for non-exchange traded financial instruments is not backed by an exchange clearing house.

The Health and Welfare Fund's fixed income investments are primarily in Canadian-issued instruments and are diversified among federal, provincial, corporate and other issuers. In order to minimize the exposure to credit risk, a comprehensive investment policy has been developed. There were no significant concentrations of credit risk in the portfolio in 2015.

(v) Interest rate risk:

Interest rate risk is the risk that the market value of the Health and Welfare Fund's investments will fluctuate due to changes in market interest rates. To properly manage the Health and Welfare Fund's interest rate risk, appropriate guidelines on the weighting and duration for the bonds and other fixed income investments are set and monitored.

## 12. Subsequent event:

Up to and including the year ended December 31, 2015, the United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry of the United States and Canada, Local 488 (the "Union") sponsored two separate health and welfare plans: The Edmonton Pipe Industry Health and Welfare Plan and the Alberta Refrigeration Industry Benefit Plan. Effective May 1, 2016, the two plans sponsored by the Union amalgamated, and all members of both plans will obtain their benefits through the Fund. The Edmonton Pipe Industry Health and Welfare Plan will bill the Alberta Refrigeration Industry Benefit Plan for costs of claims until the Alberta Refrigeration Industry Benefit Plan's net assets of approximately \$2.5 million are expended.

## 13. Comparative information

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.