

Nova Scotia Association of Health Organizations (Waiver of Life Premium Fund)

Financial statements
March 31, 2020



Independent auditor's report

To the Members of the
Nova Scotia Association of Health Organizations (Waiver of Life Premium Fund)

Opinion

We have audited the financial statements of the **Nova Scotia Association of Health Organizations (Waiver of Life Premium Fund)** [the "Fund"], which comprise the statement of net assets available for benefits as at March 31, 2020, and the statement of changes in net assets available for benefits for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2020, and its financial performance for the year ended in accordance with the basis of accounting described in note 2 to the financial statements.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – basis of accounting and restriction on use

We draw attention to note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Members of the Nova Scotia Association of Health Organizations in reviewing the activities of the Fund for the fiscal period, but do not purport to show the adequacy of the Fund's assets to meet its benefit obligations or the benefit security of individual fund members. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Members of the Nova Scotia Association of Health Organizations and should not be used by parties other than the Members of the Nova Scotia Association of Health Organizations. Our opinion is not modified in respect of this matter.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting framework as described in note 2 to the financial statements, 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.



Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund'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 Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Halifax, Canada
June 25, 2020

Ernst & Young LLP

Chartered Professional Accountants



**Nova Scotia Association of Health Organizations
(Waiver of Life Premium Fund)**

Statement of net assets available for benefits

As at March 31

	2020	2019
	\$	\$
Assets		
Cash	23,545	23,471
Due from NSAHO Health and Other Benefits Fund <i>[note 8]</i>	—	81,574
Capital assets	5,833	6,250
Investments in funds, at fair value <i>[note 3]</i>		
Canadian equities	3,445,769	3,578,054
Foreign equities	7,071,399	7,502,223
Fixed income	10,077,706	10,302,828
	<u>20,624,252</u>	<u>21,494,400</u>
Liabilities		
Accounts payable and accrued liabilities	58,272	39,640
Due to NSAHO Association Fund <i>[note 8]</i>	105,289	59,975
Due to NSAHO Health and Other Benefits Fund <i>[note 8]</i>	38,841	—
Premium waiver liability <i>[note 7]</i>	22,500	22,500
Total liabilities	<u>224,902</u>	<u>122,115</u>
Net assets available for benefits	<u>20,399,350</u>	<u>21,372,285</u>

See accompanying notes

On behalf of the Board:

Director

Director

**Nova Scotia Association of Health Organizations
(Waiver of Life Premium Fund)**

Statement of changes in net assets available for benefits

Year ended March 31

	2020	2019
	\$	\$
Increase in net assets		
Investment income <i>[note 5]</i>	702,784	662,986
(Decrease) increase in fair value of investments	(1,283,092)	423,889
Excess premiums	43,021	252,071
Life administration allowance	157,634	143,606
Total (decrease) increase in net assets	(379,653)	1,482,552
Decrease in net assets		
Operating expenses	178,607	174,390
Retired and disabled members' premiums	240,142	217,092
Investment management fees	115,772	107,654
Custodial fees	8,205	7,482
Audit fees	11,000	10,282
Consulting fees	39,556	42,682
Total decrease in net assets	593,282	559,582
Net (decrease) increase in net assets for the year	(972,935)	922,970
Net assets available for benefits, beginning of year	21,372,285	20,449,315
Net assets available for benefits, end of year	20,399,350	21,372,285

See accompanying notes

**Nova Scotia Association of Health Organizations
(Waiver of Life Premiums Fund)**

Notes to financial statements

March 31, 2020

1. Description of Fund

The Nova Scotia Association of Health Organizations [the “Association” or the “NSAHO”], operating as Health Association Nova Scotia, is incorporated under a Special Act of the Province of Nova Scotia and operates to assist member institutions in providing quality health care to the community. One of the Association’s responsibilities is the administration of a group life insurance plan [the “Plan”] for the employees of its member institutions, currently through Sun Life Assurance Company of Canada. The assets, liabilities and operating results of the Plan are recorded in the Waiver of Life Premium Fund [the “Fund”], formally known as the Group Insurance Fund.

The following description of the Plan is a summary only, effective March 31, 2020. Changes to the Plan subsequent to that date are not reflected in this description.

General

The Plan’s primary objective is to fund the waiver of life insurance premiums on behalf of employees of member organizations who are enrolled in life insurance who fall into one of two categories – disabled and retired [pre 2004].

Retiree coverage

The Plan was changed substantially effective July 1, 2004. Employees who retired prior to this date are grandfathered into the pre-existing program under the following rules:

For employees aged 65 or older who retire with at least 10 years of service, coverage under the Plan continues with no requirement to pay premiums. However, coverage immediately reduces by 20% per year until a minimum of \$3,000 is reached. Employees under the age of 65 who retired with 10 years of service or greater have two options with respect to continuance of coverage under the Plan:

- [i] To pay full premiums and retain full pre-retirement coverage until age 65 at which time premium payments cease and coverage reduces in the same manner as employees who retired at age 65 or older; or
- [ii] To pay no premiums and accept an immediate reduction in coverage in the same manner as employees who retire at age 65 or older.

Employees who retire after July 1, 2004 fall under the new rules which are as follows:

- [i] Premiums are now charged at \$0.30 per \$1,000 of insurance and are paid by the employee only;
- [ii] The reducing schedule begins immediately with a 20% reduction each year;
- [iii] There is no minimum \$3,000 payment at the end of the reducing schedule; and
- [iv] These rules apply to all retiring employees with at least 10 years of service. Employees who retire early are no longer given an option, but move immediately to the reducing schedule.

**Nova Scotia Association of Health Organizations
(Waiver of Life Premiums Fund)**

Notes to financial statements

March 31, 2020

Disability provision

Employees covered by the Plan will receive a waiver of life insurance premium should they become disabled before the age of 65, provided they are approved for disability benefits under the Nova Scotia Association of Health Organizations' Long-Term Disability Plan.

Employees who were disabled prior to July 1, 2004 are grandfathered into the life plan in that if they retire before the age of 65 with 10 years of service they may choose one of the two options available to regular employees. Employees disabled after July 1, 2004 follow the new rules once they retire [premiums of \$0.30 per \$1,000 and immediate reducing schedule].

Funding policy

The Plan is funded by income accruing to the Plan as well as a small fee built into the price of life insurance for members. Premiums for active employees are currently billed through the Health and Other Benefits Fund at \$0.18 per month per \$1,000 of coverage and are split between the employee and employer. Of this amount, the provider [Sunlife Assurance Company of Canada] requires \$0.143 per \$1,000 of coverage and \$3.84 per dependent. The remaining funds collected are to fund the waiver of premium provision under WLP. For retirees who retired after July 1, 2004, the provider requires \$0.254 of the \$0.30 per \$1,000 of coverage and the remainder is to fund the waiver of premium provision under WLP.

Underwriting results

The underwriting agreement with Sun Life Assurance Company of Canada is written on a yearly renewable term basis.

2. Summary of significant accounting policies

The following is a summary of the significant accounting policies followed by management of the Fund in the preparation of these financial statements:

Basis of presentation

These financial statements are prepared on the going concern basis and present the aggregate financial position of the Fund as a separate financial reporting entity independent of the employers and Plan members. The basis of accounting used in these financial statements materially differs from Canadian accounting standards for pension plans in Section 4600, *Pension Plans*, in Part IV of the *CPA Canada Handbook –Accounting* because it excludes the Plan's benefits obligations and related disclosures. Consequently, these financial statements do not purport to show the adequacy of the Plan's assets to meet its benefits obligations.

The Fund has elected to apply accounting standards for private enterprises for those items not covered by Section 4600.

**Nova Scotia Association of Health Organizations
(Waiver of Life Premiums Fund)**

Notes to financial statements

March 31, 2020

Measurement uncertainty

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

Investments

Investment transactions are recorded as of the trade date. Net realized gains and losses on the sale of investments and unrealized gains and losses in the fair values of investments are recognized in the statement of changes in net assets available for benefits. Interest and dividends earned on investments are recorded on an accrual basis and are included in investment income. Transaction costs are expensed as incurred.

Investments are presented at fair value. Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. The fair value of investment assets and liabilities is determined as follows:

- [a] Units in pooled funds are valued based on fair value information provided by the fund administrators.
- [b] Bonds, debentures, equities, preferred shares and derivative financial instruments are valued by reference to quoted market prices. Where available, publicly traded securities are valued using closing trade prices.
- [c] Short-term notes are valued at amortized cost which approximates fair value.

Investments denominated in foreign currencies are translated into Canadian dollars at rates of exchange at year-end.

Realized investment income denominated in foreign currencies is translated at the rates of exchange when the amounts are recognized.

Fair value of financial instruments

Investment assets and liabilities are measured at fair value as disclosed in note 3. The carrying amounts of other financial assets and liabilities approximate fair value due to their short-term nature.

Cash

Consists of cash on hand and bank balances held with financial institutions.

Capital assets

Capital assets held primarily for use in the operations of the Plan are measured at cost less accumulated depreciation or amortization and any impairment loss.

Capital assets as at year-end, relate to prepayments made for the benefit administration system.

**Nova Scotia Association of Health Organizations
(Waiver of Life Premiums Fund)**

Notes to financial statements

March 31, 2020

Allocation of expenditures

The costs of each function include the costs of personnel and other expenditures that are directly related to the function. General support and other costs are not allocated.

3. Investments

The investment objectives of the Plan are to provide long-term security of life insurance benefits to members and to minimize any increases in contributions required by members and employers. A strategy of investing in assets of Canadian and foreign equities, bonds, debentures and money market securities is aimed at achieving these objectives.

The Fund's investments are recorded at fair market value. At March 31, 2020 the Fund is 100% invested in units of various pooled funds [2019 – 100%]. The funds predominately invest in the following underlying assets:

Investments in pooled funds:	2020		2019	
	\$	%	\$	%
Equities				
Canadian	3,445,769	16.7	3,578,054	16.7
Foreign	7,071,399	34.4	7,502,223	35.1
Fixed income	10,077,706	48.9	10,302,828	48.2
	20,594,874	100.0	21,383,105	100.0

Fair values 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 as follows:

- Level 1 - Unadjusted quoted prices in an active market for an identical asset or liability.
- Level 2 - Inputs other than quoted prices in Level 1 that are observable directly [prices] or indirectly [derived from a price] for an asset or liability.
- Level 3 - Inputs for the asset or liability that are not based on observable market data and are developed often by judgment.

All of the Fund's investments are categorized as Level 1. There were no transfers between levels during the year.

4. Financial risks and risk management

The Fund's investments are susceptible to a variety of financial risks: interest rate risk, foreign currency risk, market price risk, credit risk and liquidity risk. In order to manage these risks, the Plan employs the use of professional investment managers. The Association monitors adherence to the Plan's investment policies and the performance of the investment managers and fund managers relative to the applicable benchmarks and rebalancing action is taken where appropriate.

**Nova Scotia Association of Health Organizations
(Waiver of Life Premiums Fund)**

Notes to financial statements

March 31, 2020

Interest rate risk

Interest rate risk refers to the fact that the Fund's financial position will change as market interest rates change. Interest rate risk is inherent in the nature of the Plan's business due to prolonged timing differences between cash flows related to the assets and liabilities of the Plan.

The value of the Fund's assets is affected by short-term changes in nominal interest rates and equity markets. The Fund's liabilities are exposed to the long-term expectation of rate of return on the investments as well as expectations of inflation and salary escalation. To meet these liabilities, the Plan has established a policy to maintain an asset mix of approximately 50% equities and 50% fixed income securities. Long-term equity returns have historically shown high correlation with changes in inflation and salary escalation, while fixed income securities are sensitive to changes in nominal interest rates.

Excluding all other variables, a 50 basis point increase in interest rates would decrease the fair value of the Fund's investments by \$554,284 [2019 – \$573,867]. Similarly, a 50 basis point decrease in interest rates would increase the fair value of the Fund's investments by \$554,284 [2019 – \$573,867].

Foreign currency risk

Foreign currency exposure arises from the Fund's holding of foreign currency denominated equities. Foreign currency risk is controlled by limiting investments in foreign stocks through asset allocation guidelines.

Excluding all other variables, a 10% increase in the Canadian dollar against all other currencies would decrease the fair value of the Fund's investments by \$704,055 [2019 – \$750,222]. Similarly, a 10% decrease in the Canadian dollar against all other currencies would increase the fair value of the Fund's investments by \$704,055 [2019 – \$750,222].

Market price risk

Market price risk is the risk of fluctuation in market values of investments from influences specific to a particular investment or from influences on the market as a whole. Market price risk does not include interest rate risk or foreign currency risk, which are discussed above. Market price risk is managed by the Plan through the construction of a diversified portfolio of instruments traded on various markets across various industries.

The Fund's investment in equities is sensitive to market fluctuations. Excluding all other variables, a 10% increase in market values of all equities would increase the fair value of the Fund's investments by \$1,048,632 [2019 – \$1,108,028]. Similarly, a 10% decrease in market values of all equities would decrease the fair value of the Fund's investments by \$1,048,632 [2019 – \$1,108,028].

**Nova Scotia Association of Health Organizations
(Waiver of Life Premiums Fund)**

Notes to financial statements

March 31, 2020

Credit risk

Credit risk is the risk of loss in the event the counterparty to a transaction fails to discharge an obligation and causes the other party to incur a loss.

Credit risk is controlled by limiting to 5% or less the percentage of the market value of fixed income securities invested in a single security not guaranteed by the Government of Canada or by a Canadian province and by restricting investments in a group of equities whose returns are expected to be highly correlated.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Due to the long-term nature of the Plan's long-term disability benefits obligation and the related cash flows, asset mix decisions reflect the cash requirements of the Plan. Cash requirements of the Plan are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations of the Plan.

5. Investment income

Investment income relates to:

	2020	2019
	\$	\$
Investments in pooled funds:		
Equities		
Canadian	226,937	124,094
Foreign	175,891	264,756
Fixed income	299,956	274,136
	702,784	662,986

6. Funding policy

Post-retirement life insurance benefits and the waiver of premium provisions – accrued benefit obligation valuation results as at March 31, 2018, the date of the last full valuation as prepared by Mercer (Canada) Limited is as follows:

	\$
Retired employee life insurance waiver	3,881,000
Pre-94 disabled members with an insured waiver	36,000
Disabled employee waiver of life insurance premium benefits	9,084,000
Total accrued benefit obligation	13,001,000

As at March 31, 2020, the market value of investments was \$20,594,874 [2019 – \$21,383,106].

**Nova Scotia Association of Health Organizations
(Waiver of Life Premiums Fund)**

Notes to financial statements

March 31, 2020

7. Premium waiver liability

Premium waiver liability represents the Plan's obligation to pay a death benefit of \$1,500 per employee for a group of employees that were retired or disabled prior to July 1, 1989.

8. Related party balances

The amount due to the NSAHO Association Fund and due from/to NSAHO Health and Other Benefits Fund are unsecured, non-interest bearing and no set terms of repayment.