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

Financial statements

March 31, 2021

Building a better working world

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, 2021, 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, 2021, 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.

Ernst & Young LLP

Chartered Professional Accountants

Halifax, Canada
June 24, 2021

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

Statement of net assets available for benefits

As at March 31

	2021	2020
	$	$
Assets		
Current		
Cash	**60,805**	23,545
Total current assets	**60,805**	23,545
Capital assets	**4,583**	5,833
Investments in funds, at fair value *[note 3]*		
Canadian equities	**4,439,107**	3,445,769
Foreign equities	**8,188,174**	7,071,399
Fixed income	**11,794,687**	10,077,706
Total investments in funds, at fair value	**24,421,968**	20,594,874
Total assets	**24,487,356**	20,624,252
Liabilities		
Current		
Accounts payable and accrued liabilities	**81,283**	58,272
Due to NSAHO Association fund *[note 8]*	**33,478**	105,289
Due to NSAHO Health and Other Benefits fund *[note 8]*	**17,227**	38,841
Total current liabilities	**131,988**	202,402
Premium waiver liability *[note 7]*	**21,000**	22,500
Total liabilities	**152,988**	224,902
Net assets available for benefits	**24,334,368**	20,399,350

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

	2021	2020
	$	$
Increase in net assets		
Investment income *[note 5]*	**828,259**	702,784
Increase (decrease) in fair value of investments	**3,647,129**	(1,283,092)
Administration allowance/excess premium	**121,302**	200,654
Total increase (decrease) in net assets	**4,596,690**	(379,654)
Decrease in net assets		
Premium waiver to providers	**238,899**	240,142
Professional expense	**156,093**	58,761
Investment management fees expense	**122,187**	115,772
Salaries and benefits expense	**80,409**	85,066
Indirect expenses	**39,254**	64,174
Other operating costs	**24,830**	29,366
Total decrease in benefits – premium payment, investment, professional and operating	**661,672**	593,281
Net increase (decrease) in net assets for the year	**3,935,018**	(972,935)
Net assets available for benefits, beginning of year	**20,399,350**	21,372,285
Net assets available for benefits, end of year	**24,334,368**	20,399,350

See accompanying notes

Notes to financial statements

March 31, 2021

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 ["WLP" or the "Fund"], formally known as the Group Insurance Fund.

The following description of the Plan is a summary only. 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.

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. 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 $0.150 per $1,000 of coverage and $4.03 per dependent. Retirees who retired after July 1, 2004, the provider requires $0.267 of the $0.30 per $1,000 of coverage.

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.

Use of estimates

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 period. Actual results could differ from these estimates resulting in differences.

Notes to financial statements

March 31, 2021

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 investment funds, including pooled funds, are stated at their fair values on the basis of the reported net asset value per unit or share for the respective fund.
[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.

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 pooled funds with concentrations in Canadian and foreign equities, and bonds is aimed at achieving these objectives.

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 1 primarily includes investments in funds which have available prices in an active market with no redemption restrictions.
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 are based on non-observable market data that have a significant impact on the valuation. Level 3 primarily includes investments in funds with redemption restrictions and real estate.

The Fund's investments are recorded at fair market value. At March 31, 2021 the Fund is 100% invested in units of various pooled funds [2020 – 100%]. The funds predominately invest in the following underlying assets:

	2021		2020	
	$	%	$	%
Investments in pooled funds				
Equities				
Canadian	**4,439,107**	**18.2**	3,445,769	16.7
Foreign	**8,188,174**	**33.5**	7,071,399	34.4
Fixed income	**11,794,687**	**48.3**	10,077,706	48.9
	24,421,968	**100.0**	20,594,874	100.0

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.

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.

Notes to financial statements

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 change in interest rates would change the fair value of the Fund's investments by $494,005 [2020 – $554,284].

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% change in the Canadian dollar against all other currencies would change the fair value of the Fund's investments by $818,817 [2020 – $704,055].

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 maximum risk resulting from investments in funds is limited to the Plan's investment in each investment fund.

The Fund's investment in pooled funds that hold equities are sensitive to market fluctuations. Excluding all other variables, a 10% change in market values of all equities would change the fair value of the Fund's investments by $1,253,728 [2020 – $1,048,632].

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.

Notes to financial statements

March 31, 2021

5. Investment income

Investment income relates to:

	2021	2020
	$	$
Investments in pooled funds		
Equities		
Canadian	**120,999**	226,937
Foreign	**344,765**	175,891
Fixed income	**362,495**	299,956
	828,259	702,784

6. Funding policy

The Plan's benefits obligations and related disclosures are not accrued on the statement of net assets available for benefits [note 2]. Consequently, these financial statements do not purport to show the adequacy of the Plan's assets to meet its benefits obligations.

Post-retirement life insurance benefits and the waiver of premium provisions – accrued benefit obligation valuation results as at August 31, 2020, the date of the last full valuation as prepared by Mercer (Canada) Limited is as follows:

	$
Retired employee life insurance waiver	4,135,000
Pre-94 disabled members with an insured waiver	19,000
Disabled employee waiver of life insurance premium benefits	8,456,000
Total accrued benefit obligation	12,610,000

As at March 31, 2021, the market value of investments was $24,421,968 [2020 – $20,594,874].

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.

9. Reclassification and comparative figures

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements.