

CUPE Education Workers' Benefits
Trust
Financial Statements
For the year ended December 31, 2020

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Independent Auditor's Report

To the Trustees of CUPE Education Workers' Benefits Trust

Qualified Opinion

We have audited the financial statements of CUPE Education Workers' Benefits Trust (the "Trust"), which comprise the statement of financial position as at December 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, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2020, and its changes in net assets available for benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for Qualified Opinion

As agreed to by the Trustees of the Trust and in common with many benefit fund audits, the scope of our audit was limited to the records of the Trust and therefore, did not extend to an examination of the human resource records of the contributing employers. Accordingly, our verification of contribution revenue was limited to the amounts recorded in the records of the Trust and we were not able to determine whether any adjustments might be necessary to contribution revenue and increase in net assets for the year ended December 31, 2020 and 2019, and assets as at December 31, 2020 and 2019 and net assets available for benefits as at January 1 and December 31 for both the 2020 and 2019 years. Our audit opinion on the financial statements for the period ended December 31, 2019 was modified accordingly because of this limitation in scope.

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 Trust 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 qualified audit opinion.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Trust'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 Trust or to cease operations, or has no realistic alternative but to do so.

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



Independent Auditor's Report (Continued)

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 Trust'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 Trust'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 Trust 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.

BDO CANADA LLP

Chartered Professional Accountants, Licensed Public Accountants
Oakville, Ontario
May 13, 2021

CUPE Education Workers' Benefits Trust
Statement of Financial Position

December 31	2020	2019
Assets		
Cash	\$ 13,380,930	\$ 23,573,872
Accrued interest receivable	-	41,330
Contributions receivable (Note 4)	4,576,021	163,238
Investment (Note 3)	134,277,442	86,701,999
Prepaid insurance	-	72,388
	<u>152,234,393</u>	<u>110,552,827</u>
Liabilities		
Accounts payable and accrued liabilities	5,159,043	4,489,679
Deferred contributions	8,473,561	9,709,507
Provision for incurred but not reported claims	5,328,900	5,112,300
	<u>18,961,504</u>	<u>19,311,486</u>
Net assets available for benefits (Note 5)	\$133,272,889	\$ 91,241,341
Net assets available for benefits represented by:		
Claims fluctuation reserve	\$ 55,367,334	\$ 53,208,030
Unallocated balance	77,905,555	38,033,311
Net assets available for benefits (Note 5)	\$133,272,889	\$ 91,241,341

On behalf of the Board:

W. M. ... Trustee

... Trustee

CUPE Education Workers' Benefits Trust Statement of Changes in Net Assets Available for Benefits

For the year ended December 31	2020	2019
Increase in assets		
Contributions - School Boards/FTE	\$ 226,532,119	\$ 227,605,587
Contributions - Members	6,164,706	12,281,441
	<u>232,696,825</u>	<u>239,887,028</u>
Investment income		
Interest income	182,563	1,674,855
Pooled funds		
Income distributions	3,168,296	837,596
Capital gain distributions	2,906,189	-
Net realized gain on sale of investments	1,634,342	-
Current period change in fair value	201,623	(953,345)
	<u>8,093,013</u>	<u>1,559,106</u>
	<u>240,789,838</u>	<u>241,446,134</u>
Decrease in assets		
Benefit costs		
Insurance costs		
Life premiums - Canada Life	10,127,918	10,035,648
Accidental death and dismemberment premiums - Chubb	680,818	674,167
Global medical assistance premiums - Canada Life	208,530	207,743
	<u>11,017,266</u>	<u>10,917,558</u>
Self-funded benefit costs		
Medical benefits	106,754,354	105,445,052
Dental benefits	54,124,859	68,608,082
Vision benefits	12,562,627	11,593,079
	<u>173,441,840</u>	<u>185,646,213</u>
Other benefit costs		
Retention charge	4,276,146	4,647,351
Pooling charge	-	1,587,107
Premium taxes	4,273,487	4,471,350
	<u>8,549,633</u>	<u>10,705,808</u>
	<u>193,008,739</u>	<u>207,269,579</u>
Expenses (Note 8)	\$ 5,749,551	5,562,539
	<u>198,758,290</u>	<u>212,832,118</u>
Increase in net assets before undernoted items	42,031,548	28,614,016
Other items		
One-time contributions - Government of Ontario (Note 2)	-	996,839
Increase in net assets	<u>42,031,548</u>	<u>29,610,855</u>
Net assets available for benefits, beginning of year (Note 5)	<u>91,241,341</u>	<u>61,630,486</u>
Net assets available for benefits, end of year (Note 5)	<u>\$ 133,272,889</u>	<u>\$ 91,241,341</u>
Increase in net assets available for benefits represented by:		
Increase in claims fluctuation reserve	\$ 2,159,304	\$ 2,560,830
Increase in unallocated balance	39,872,244	27,050,025
Increase in net assets available for benefits (Note 5)	<u>\$ 42,031,548</u>	<u>\$ 29,610,855</u>

The accompanying notes are an integral part of these financial statements.

CUPE Education Workers' Benefits Trust

Notes to Financial Statements

December 31, 2020

1. Significant Accounting Policies

Purpose of the Trust

The purpose of the CUPE Education Workers' Benefits Trust (the "Trust") is to provide life insurance, and health and dental benefits to education sector workers in the Province of Ontario employed by District School Boards, District School Area Boards and Public School Authorities represented by the Canadian Union of Public Employees ("CUPE") upon eligibility as further described in Note 9. The Trust was established on February 28, 2018 with a participation date of March 1, 2018.

Basis of Presentation

These financial statements are prepared using Canadian accounting standards for pension plans, which are applicable to all benefit plan financial statements. For accounting policies that do not relate to the Trust's investment portfolio, the Trust has elected to apply Canadian accounting standards for private enterprises.

Revenue Recognition

School board/full-time equivalent ("FTE") and member contributions are recognized on an accrual basis in the month in which the amounts relate, based on agreed upon rates. Deferred contributions represent amounts received in advance for the following month's benefit costs.

One-time contributions are recognized when the amount is known and collection is reasonably assured.

Interest income is recognized on the accrual basis as earned.

Investments

Investments held in pooled funds are stated at fair value on a trade date basis. Pooled fund investments are valued at the unit values supplied by the pooled fund administrator, which represent the Trust's proportionate share of underlying net assets at fair values determined using closing market prices.

Pooled fund investment income recognized is the increase or decrease in the value of the pooled fund. Dividends and interest distributions are reinvested within the pooled fund.

The realized gains (losses) on investments sold in the year are determined by the excess of proceeds over the average cost of investments sold, and accordingly, includes the applicable share of the excess of fair value of cost of investments at the beginning of the year.

The current period change in fair value of investments represents the unrealized appreciation (depreciation) in fair value of investments held at year end less the related unrealized appreciation (depreciation) as at the previous year end.

Provision for incurred but not reported claims

The Trust self-funds some of the benefits (as described in Note 9) and these benefits are recorded on the accrual basis. The provision for incurred but not reported claims represents the amounts payable at period end for claims incurred, but not yet reported.

CUPE Education Workers' Benefits Trust Notes to Financial Statements

December 31, 2020

1. Significant Accounting Policies - (Continued)

Income Tax Status

The Trust is an Employee Life and Health Trust pursuant to the provisions of the Income Tax Act. The net investment income earned by the Trust is subject to income tax to the extent investment income exceeds allowable expenses.

Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for pension plans 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 reporting period. Management estimates include the provision for incurred but not reported claims. Actual results could differ from management's best estimates as additional information becomes available in the future.

2. One-Time Contributions

Pursuant to the Trust Agreement, the Government of Ontario provided one-time contributions to the Trust to establish an initial Claims Fluctuation Reserve. One-time funding was also provided by CUPE for the purposes of assisting the Trust to cover start-up administration costs.

3. Investments

	<u>2020</u>	2019
RBC Global Asset Management Inc.		
PH&N Short Term Bond & Mortgage Fund	\$ 66,880,991	\$ 86,701,999
PH&N Core Plus Bond Fund	<u>67,396,451</u>	-
	<u>\$134,277,442</u>	<u>\$ 86,701,999</u>

4. Contributions Receivable

Included in contributions receivable is \$4,473,333 (2019 - \$Nil) in regards to FTE rate and head count reconciliations to December 31, 2020.

CUPE Education Workers' Benefits Trust Notes to Financial Statements

December 31, 2020

5. Net Assets Available for Benefits

Year Ending December 31, 2020

	Claims Fluctuation Reserve	Unallocated Balance	Total
Balance, beginning of year	\$ 53,208,030	\$ 38,033,311	\$ 91,241,341
Increase in net assets	-	42,031,548	42,031,548
Transfers to reserve	2,159,304	(2,159,304)	-
Balance, end of year	\$ 55,367,334	\$ 77,905,555	\$ 133,272,889

Period Ending December 31, 2019

	Claims Fluctuation Reserve	Unallocated Fund Balance	Total
Balance, beginning of year	\$ 50,647,200	\$ 10,983,286	\$ 61,630,486
Increase in net assets	-	29,610,855	29,610,855
Transfers to reserve	2,560,830	(2,560,830)	-
Balance, end of year	\$ 53,208,030	\$ 38,033,311	\$ 91,241,341

Claims Fluctuation Reserve

The Claims Fluctuation Reserve ("CFR") has been established as a risk mitigating tool. The Board of Trustees has set the CFR at 25% of the current year's total plan costs. In accordance with the Trust Agreement, an annual actuarial valuation shall be prepared and will include projections of total Trust costs (claims and expenses) for a period of not less than three years. If the actuarial report projects the CFR to be less than 8.3% of Trust claims and expenses over a projected three-year period, the Trustees shall take actions as prescribed in the Trust Agreement to address the shortfall. In addition, the latest round of collective bargaining includes provisions requiring that the Trust maintain a CFR of at least 25%.

6. Financial Instrument Risks

The Trust may be exposed to a variety of financial risks including credit risk, liquidity risk and market risk. These risks have not changed from the prior year.

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus, the "COVID-19" outbreak. On March 11, 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. As a result, economic uncertainties have arisen. Although the disruption from the virus is expected to be temporary, given the dynamic nature of these circumstances, the duration of disruption to the Plan and the related financial impact, specifically on factors impacting the fair value of the Plan's investments as disclosed in Note 3, cannot be reasonably estimated at this time.

CUPE Education Workers' Benefits Trust Notes to Financial Statements

December 31, 2020

6. Financial Instrument Risks - (Continued)

Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation that is entered into with the Trust. The risk of default on transactions in listed securities is unlikely, as the trade will fail if either party to the transaction does not meet its obligation.

While the pooled fund investment may be exposed to credit risk with respect to bonds, the risk is managed by diversifying fixed income investments by issuer, market, and debt ratings. The fair value of debt securities includes consideration of the creditworthiness of the debt issuer. As of December 31, 2020, the bond holdings by credit rating are as follows:

	2020	
	Amount	Percent of Total (%)
Cash and Short Term Investments	\$ 16,311,217	\$ 12
AAA	19,702,315	15
AA	35,991,896	27
A	22,457,992	17
BBB	29,103,734	22
BB	6,287,006	5
Total Mortgages	4,423,282	2
	\$134,277,442	\$ 100
	2019	
	Amount	Percent of Total (%)
Cash and Short Term Investments	\$ 4,421,802	\$ 5
AAA	32,808,036	38
AA	14,687,319	17
A	13,482,161	16
BBB	16,195,933	19
BB	294,787	-
Unrated	8,670	-
Total Mortgages	4,803,291	5
	\$ 86,701,999	\$ 100

The Trust also has credit risk to the extent that contributions receivable are not collectible. The Trust manages this risk by closely monitoring delinquent contributors and ensuring late contributions and deviations are pursued. The Trust is also exposed to credit risk arising from all of its bank accounts being held at one financial institution.

CUPE Education Workers' Benefits Trust Notes to Financial Statements

December 31, 2020

6. Financial Instrument Risks - (Continued)

Liquidity Risk

The Trust is exposed to *liquidity risk* in the event that investments must be sold quickly. The Trust's assets are held in bank accounts with one of the major Canadian financial institutions and can be readily disposed of as liquidity needs arise, assuming orderly markets.

Included in the Trust are also investments in units of pooled funds, which in turn invest in a diversified portfolio of assets. While the underlying investments of the pooled funds in mortgages may be exposed to higher degree of liquidity risk, the risk to the Trust is indirect in nature.

Market Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of financial instruments. It arises when the Trust invests in interest-sensitive investments such as bonds and other fixed income investments.

Included in the Trust are investments in units of pooled funds, which in turn invest in a diversified portfolio of assets. While the underlying investments of the pooled funds are susceptible to interest rate risk, the risk to the Trust is indirect in nature.

As at December 31, 2020, had prevailing interest rates on the interest-bearing investments in the underlying investments of the pooled funds raised or lowered by 1% assuming a parallel shift in the yield curve, with all other variables held constant, net assets available for benefits would have decreased or increased, respectively, by approximately \$7.3 million (2019 - \$2.2 million). The Trust's sensitivity to interest rate changes was estimated using the weighted average duration of the portfolio. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

The table below summarizes the exposure to interest rate risks by remaining term of maturity of fixed income investments held directly by the Trust:

December 31, 2020

	Less than 1 year	1 - 5 years	5 - 10 years	> 10 years	Total
Fixed Income Investments	\$25,244,159	\$56,947,063	\$26,748,066	\$25,338,154	\$134,277,442

December 31, 2019

	Less than 1 year	1 - 5 years	5 - 10 years	> 10 years	Total
Fixed Income Investments	\$11,583,387	\$71,477,128	\$3,641,484	-	\$86,701,999

CUPE Education Workers' Benefits Trust Notes to Financial Statements

December 31, 2020

6. Financial Instrument Risks - (Continued)

Market Risk (continued)

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currencies. The Trust is not directly holding investments denominated in a foreign currency. Therefore, the Trust has no direct exposure to currency with respect to these investments.

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, other than those arising from interest rate risk or currency risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market. The Trust manages market risk by diversifying investments, as approved by the Trustees.

Financial Instruments Fair Value Hierarchy

Disclosure of a three-level hierarchy for fair value measurements is based upon transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1:

For securities valued based on unadjusted quoted prices in active markets for identical assets.

Level 2:

For securities valued based on inputs, other than quoted prices included in Level 1, that are observable for the asset, either directly or indirectly.

Level 3:

For securities valued based on inputs that are based on unobservable market data.

As at December 31, 2020 and December 31, 2019, the investments in pooled funds are Level 2 within the fair value hierarchy. There were no transfers between levels during the year.

7. Capital Management

The Trust considers its capital to be its net assets available for benefits (Note 5). The Trust's objective when managing its capital is to safeguard its ability to continue as a going concern so it can continue to provide benefits to eligible members. The Trustees monitor the Trust's financial position to ensure its objective is met.

There have been no changes in what the Trust considers to be its capital and there have been no significant changes to the Trust's capital management objectives, policies and processes in the period. The Trust's investment assets are invested in accordance with the Trust's Statement of Investment Policies and Procedures, established October 2018 and modified and approved in September 2020 to amend the tolerance range and target allocations of the permitted investments as disclosed in Note 3.

CUPE Education Workers' Benefits Trust Notes to Financial Statements

December 31, 2020

7. Capital Management (Continued)

The investment objective of the Trust is to not earn a negative rate of return, recognizing that this objective may increase should the cash flow profile of the Trust allow for additional risk to be taken. A secondary investment objective is to compare the Trust's performance to the returns obtained from a benchmark index made up as follows:

Canadian Short-term Fixed Income	FTSE Canada Short Term Bond Index
Core Plus Fixed Income	FTSE Canada Universe Bond Index

The Trustees monitor the performance of the investment manager of the pooled funds, which includes but is not limited to semi-annual reviews and ongoing evaluation of performance relative to standards appropriate to the pooled fund mandate.

8. Expenses

	<u>2020</u>	<u>2019</u>
Administration fees (Note 9(b))	\$ 4,242,023	\$ 4,246,259
Bank charges and interest	17,316	59,422
Insurance	130,598	128,826
Office and general	118,557	205,918
Professional fees (Note 9(b))	923,564	591,966
Salaries and benefits	317,493	330,148
	<u>\$ 5,749,551</u>	<u>\$ 5,562,539</u>

9. Plan Information

(a) Description of Plan Benefits:

Actual benefits, including conditions and limitations thereto, are governed by the provisions of the Plan and reference should be made to the Plan documents for more detailed information.

The benefits of the Plan are provided to eligible members of the Plan and their dependents. Members and dependents are covered on the date at which the member begins a permanent position as a CUPE member at an Ontario school board. Temporary and casual members may not join the plan unless the current local collective agreement provides coverage for temporary or casual members.

CUPE Education Workers' Benefits Trust Notes to Financial Statements

December 31, 2020

9. Plan Information (Continued)

(a) Description of Plan Benefits: (continued)

The benefits of the Plan can be summarized as follows:

- (1) Basic Life insurance (insured, refund basis)
- (2) Supplemental (insured, refund basis)
- (3) Optional life insurance (insured)
- (4) Accidental death and dismemberment insurance (insured)
- (5) Optional accidental death and dismemberment insurance (insured)
- (6) Global medical assistance (insured)
- (7) Medical (self-funded)
- (8) Dental (self-funded)
- (9) Vision (self-funded)
- (10) Paramedical (self-funded)

(b) Administration and Professional Fees

Recipients of administration and professional fees are as follows:

	2020	2019
Administration fees		
Ontario Teachers Insurance Plan (OTIP)	\$ 4,242,023	\$ 4,246,259
Professional fees		
Audit and tax		
BDO Canada LLP	\$ 56,354	\$ 66,092
Consulting		
Eckler Ltd.	353,156	323,383
BDO Canada LLP	35,934	5,989
Governance Solutions Inc.	6,639	-
Investment service		
RBC Global Asset Management Inc.	222,879	42,227
Legal		
Koskie Minsky LLP	191,726	101,040
Goldblatt Partners LLP	50,850	53,235
Jesse M. Nyman Mediation and Arbitration	6,026	-
	\$ 923,564	\$ 591,966