Financial Statements

JOINT HEALTH SCIENCE BENEFITS TRUST

For the period from commencement of operations on April 1, 2017 to December 31, 2017

Smythe CPA

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF TRUSTEES OF JOINT HEALTH SCIENCE BENEFITS TRUST

We have audited the accompanying financial statements of Joint Health Science Benefits Trust, which comprise the statement of financial position as at December 31, 2017, the statements of changes in net assets and changes in benefit obligations for the period from commencement of operations on April 1, 2017 to December 31, 2017, 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 Joint Health Science Benefits Trust as at December 31, 2017 and its changes in net assets and its changes in benefit obligations for the period from commencement of operations on April 1, 2017 to December 31, 2017 in accordance with Canadian accounting standards for pension plans.

Smythe LLP

Chartered Professional Accountants

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September 24, 2018

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JOINT HEALTH SCIENCE BENEFITS TRUST

Statement of Financial Position

December 31, 2017

	Notes		2017
Assets			
Cash		$	9,506,728
Investments	3		15,068,940
Accrued interest and other receivables			8,324
Contributions receivable			6,881,767
Equipment			3,137
			31,468,896
Liabilities			
Benefits and accounts payable			350,658
Due to Healthcare Benefit Trust	4		8,661,968
Net assets available for benefits			22,456,270
Plan benefit obligations	5		21,744,434
Economic dependence	6		-
Surplus		$	711,836

See accompanying notes to financial statements.

Approved on behalf of the Board of Trustees:

_________________________ Trustee

_________________________ Trustee

JOINT HEALTH SCIENCE BENEFITS TRUST

Statement of Changes in Net Assets

For the period from commencement of operations on April 1, 2017 to December 31, 2017

	Notes	2017
Increase in Assets		
Contributions and income:		
Contributions	7	$ 57,712,375
Investment income	8	231,069
Changes in unrealized gain on investments		94,105
		58,037,549
Decrease in Assets		
Disbursements and expenses:		
Benefits paid	9	33,615,095
Operating expenses	10	1,966,184
		35,581,279
Contributions and income less disbursements and expenses		22,456,270
Net changes in plan benefit obligations		21,744,434
		711,836
Surplus, beginning of period		-
Surplus, end of period		$ 711,836

See accompanying notes to financial statements.

JOINT HEALTH SCIENCE BENEFITS TRUST

Statement of Changes in Benefit Obligations

For the period from commencement of operations on April 1, 2017 to December 31, 2017

	Notes	2017
Plan benefit obligations, beginning of period		$ -
Long-term disability service cost and incurred but not reported (IBNR)		17,605,775
Disabled claims payments		(333,434)
Long-term disability administration expenses		(4,415)
Changes in incurred but not reported		3,184,676
Interest cost		483,764
Experience loss		808,068
Plan benefit obligations, end of period	5	$ 21,744,434

See accompanying notes to financial statements.

1. Description of the Trust:

The Joint Health Science Benefits Trust (the Trust) was established under the 2014-2019 collective agreement between the Health Science Professionals Bargaining Association (HSPBA) and the Health Employers Association of British Columbia (HEABC). The HSPBA and Health Sector Employers are equal partners in delivering health and welfare benefits to their employees. The Trust provides Long-term Disability (LTD), Group Life, Dependent Life, Extended Health Care (EHC), Dental and Accidental Death & Dismemberment (AD&D) coverage. The Trust formally assumed responsibility for providing employee benefits programs on April 1, 2017.

The HEABC appoints a portion of the trustees to the Trust, while the remaining trustees are appointed by the HSPBA. The HEABC and HSPBA have equal representation on the Board of Trustees.

The Trust is funded by participating employers and employees with contributions held in trust to pay for benefits for employees and eligible dependents. Employer contributions are set as a percentage of straight time payroll.

The Healthcare Benefit Trust (HBT) has been engaged as the third-party administrator of the Trust.

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared in accordance with the Canadian Accounting Standards for Pension Plans. For accounting policies that are not related to the Trust's investments or benefit obligations, the Trust has complied with International Financial Reporting Standards (IFRS). The financial statements were authorized for issue by the Board of Trustees on September 24, 2018.

2. Significant accounting policies (continued):

(b) Financial instruments:

(*i*) Recognition and measurement:

Financial assets are classified and measured in one of the following categories based on the business model used to manage the asset: fair value through profit and loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost. Financial liabilities are classified and measured as either FVTPL or amortized cost. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. Transaction costs are included in the initial carrying amount of financial instruments except for financial instruments classified as FVTPL in which case transaction costs are expensed as incurred.

The Fund has not classified any of its financial instruments as FVOCI.

(*ii*) Fair value through profit and loss:

Financial instruments classified as FVTPL are subsequently measured at fair value at each reporting period with changes in fair value recognized in the statement of changes in net assets in the period in which they occur. The Trust's investments are categorized as FVTPL and are comprised of units of the Healthcare Investment Unit Trust (HIUT). The HIUT units are valued based on closing net asset values at the date of the statement of financial position.

(*iii*) Amortized cost:

Financial assets and liabilities categorized at amortized cost are recognized initially at fair value plus any directly attributable transaction costs. Subsequent measurement is at amortized cost, less any impairment losses. Interest income and expense are recognized by applying the effective interest rate. Cash, accrued interest and other receivables, contributions receivable and benefits and accounts payable are categorized as amortized cost.

(c) Equipment:

Equipment is recorded at historical cost and amortized using the straight-line method over their estimated useful lives, commencing when they are put into use, as follows:

Asset	Estimated useful lives
Computer hardware	4 years

2. Significant accounting policies (continued):

(d) Plan benefit obligations:

Liabilities are recorded for future benefit payments on claims reported prior to the fiscal year end and on claims that have been incurred prior to the fiscal year end but not reported by that time. These liabilities are actuarially determined based on historical claims experience, current and expected future rates of investment return, and the time value of money. The liabilities include a provision for the future cost of investigation and settlement of those claims incurred prior to the fiscal year end.

Changes to these liabilities based on changes to the underlying actuarial assumptions are recorded in the period during which the change is made.

The provision for plan benefits and claims are estimates subject to variability because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Estimates may vary because of receipt of additional claim information and significant changes from historical trends in severity and/or frequency of claims.

(e) Revenue recognition:

Contributions from the employers and employees are recorded in the statement of changes in net assets available for benefits on an accrual basis.

Investment income is recognized on an accrual basis.

(f) Benefits:

Benefit payments to members are recorded on an accrual basis in the statement of changes in net assets available for benefits when the member becomes entitled to payment.

(g) 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 application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of income and contributions and disbursements and expenses during the reporting period. Areas of significant estimation include plan benefit obligations, which are further described in note 5. Actual results could differ from these estimates as additional information becomes available in the future.

(h) Taxation:

The Trust is an Employee Life and Health Trust, which is subject to income tax pursuant to subsections 104(2) and 122(1) of the *Income Tax Act (Canada)*. The Trust is only taxed on net investment income and net taxable capital gains to the extent that its deductible expenses do not exceed such income.

2. Significant accounting policies (continued):

(i) Standards and interpretations issued but not yet effective:

IFRS 9 - *Financial Instruments*

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

(*i*) Classification and measurement of financial assets:

Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: “amortized cost”, “fair value through other comprehensive income”, or “fair value through profit or loss” (default). Equity instruments are classified and measured as “fair value through profit or loss” unless upon initial recognition elected to be classified as “fair value through other comprehensive income”.

(*ii*) Classification and measurement of financial liabilities:

When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity’s own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.

(*iii*) Impairment of financial assets:

An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at “amortized cost” or “fair value through other comprehensive income”, lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.

(*iv*) Hedge accounting:

Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

The final version of this new standard is effective for the Trust’s annual period beginning January 1, 2018.

IFRS 17 - *Insurance Contracts*:

This standard changes the basis of measuring insurance contracts. The standard is effective for annual periods beginning on or after January 1, 2021. The standard will impact the classification and measurement of insurance liabilities. The Trust is yet to assess its full impact.

3. Investments:

The investments of the Trust comprise of units of the HIUT, a pooled investment vehicle. The HIUT was created to allow for the pooling of investments for the Trust and three other trusts. The HIUT has appointed the British Columbia Investment Management Corporation (BCI) to manage its investments. As at December 31, 2017, the Trust holds 1.4% of total outstanding units.

The Trust invests all contributions in excess of approximately 1.5 times the monthly operating cost in the HIUT. The HIUT is related to the Trust by virtue of common trustees.

4. Due to Healthcare Benefit Trust:

HBT has been engaged as administrator of the Trust. HBT is considered a related party by virtue of its capacity as administrator. In exchange for these administration services, a fee (Note 10) is incurred based on members enrolled for benefits coverage and additional services.

As part of HBT's administrative duties, certain expenses during the year are paid for on behalf of the Trust. All contributions are initially received by HBT and subsequently remitted to the Trust. The due to related party balance of $8,661,968 is payable to HBT and relates to expenses paid and administration fees payable. The amount is unsecured, non-interest bearing and was fully repaid to HBT in February 2018.

5. Plan benefit obligations:

	2017
Long-term disability:	
Admitted claims	$ 5,662,391
Incurred but not reported claims	9,927,851
Group life, accidental death and dismemberment, dental and extended healthcare:	
Disabled extended healthcare	2,111,649
Disabled dental	306,343
Disabled group life/accidental death and dismemberment	551,524
Incurred but not reported claims	3,184,676
	$ 21,744,434

5. Plan benefit obligations (continued):

Plan benefit obligations represent the present value of future benefit payments payable by the Trust. An actuarial valuation is performed annually by George & Bell Consulting Inc., with the effective date being consistent with the period-end of the Trust. The actuarial liabilities are determined using accepted actuarial practices in accordance with the standard of practice established by the Canadian Institute of Actuaries (CIA). Liabilities primarily cover benefits payable to claimants on LTD, including both reported and unreported claims at December 31, 2017.

In addition to LTD benefits, actuarial liabilities also provide for the following:

- Incurred but not reported claims of active employees for EHC, dental, group life and AD&D.
- Future costs for EHC, dental, group life and AD&D for existing disabled claimants (collectively, disabled non-income benefits).

These liabilities are only recognized in respect of certain types of participating employees.

In determining the obligations of the Trust, the cost of claims, future changes in claims costs, the time value of money (to discount future claims to present value) and expenses to administer the benefits, are included in the determination. These liabilities are dependent on economic and demographic experience. To determine the obligations, assumptions about future economic and demographic experience are necessary.

Demographic assumptions are largely derived based on past experience. Economic assumptions, on the other hand, are based more on current market conditions than experience. Demographic and economic assumptions will change over time. It is possible that such changes could cause a material change in the actuarial present value of future benefit payments. The following long-term assumptions were used in the actuarial valuation:

	2017
Discount rate	5.8%
Expense assumption	4.0%
IBNR assumption:	
Group life and AD&D	$ 100,000
LTD[1]	1.3%
Dental[2]	132/365
EHC[2]	31/365
Disabled non-income benefits	175%
Assumed indexing rates	1.5% and 2.0%

1. Percentage of straight time payroll for the preceding 12-month period
2. Fraction of payments and expenses in previous 12 months.

The rate of terminations of active claims and the Canadian Pension Plan (CPP) approval rate are also critical assumptions used in the actuarial valuation.

Long-term economic and actuarial assumptions and methods are reviewed periodically. Management believes that the valuation methods and assumptions are, in aggregate, appropriate for the valuation.

5. Plan benefit obligations (continued):

The actuarial valuation involves making assumptions about the future. Actuarial assumptions are approved by the Board of Trustees. The rationales for key assumptions are:

- Discount rate: this has been set equal to the Trust's best estimate of investment return of 5.8%. Should the discount rate increase or decrease by 1% this would impact the actuarial liability by ($800,000) or $1,000,000, respectively.
- Rate of terminations of active claims: the actuary used the CIA 2004-2008 non-Quebec, female termination table with adjustments based on actual experience of the Trust for the 60 month period ending June 30, 2017. A risk could arise that the Trust's future termination experience is worse than the assumed termination rates.
- CPP approval rate: a study was performed by the actuary on actual approvals of CPP disability claims by active claimants. The resulting assumption is the best estimate without margins and incorporates actual experience to June 30, 2017. The CPP approval rate assumption is based on age and duration since disability. A risk could arise that the Trust's future CPP approval experience is worse than the assumed CPP approval rates.

6. Economic dependence:

The Trust received approximately 97% of its participant contributions from the Health Authorities and is dependent upon the ability of the Health Authorities to meet future contribution rate payments.

7. Contributions:

	2017
Straight time payroll	$ 56,912,375
Lump sum payment	800,000
	$ 57,712,375

As part of the funding formula for the Trust, a one-time lump sum payment of $800,000 was made on April 1, 2017 by HEABC.

8. Investment income:

	2017
Interest from cash	$ 63,422
Investment expenses	(38,659)
Investment income from HIUT	206,633
Withholding taxes	(327)
	$ 231,069

9. Benefits paid:

	2017
AD&D/Group life	$ 364,378
Dental	12,883,333
EHC	20,118,881
LTD	248,503
	$ 33,615,095

10. Operating expenses:

	Notes	2017
Actuarial		$ 53,045
Administration fees	4	314,444
Claims adjudication, administration, and office		874,150
Consulting		29,684
JHSBT set up		591,332
Legal		63,620
Insurance		18,500
Trustee operations	4	21,409
		$ 1,966,184

11. Fair value of financial instruments:

(a) Fair value hierarchy:

The Trust's financial instruments consist of cash, investments, accrued interest and other receivables, contributions receivable, and benefits and accounts payable.

The fair value of a financial instrument is the estimated amount that the Trust would receive or pay to settle a financial asset or financial liability as at the reporting date. Investments are carried at fair value in the financial statements. The carrying value of cash, accrued interest and other receivables, contributions receivable, and benefits and accounts payable approximates fair value due to their short-term to maturity.

The Trust has categorized the inputs used to value its financial instruments held at fair value into a three-tier fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The hierarchy of inputs is summarized below:

- Quoted prices (unadjusted) in active markets (Level 1).
- Inputs other than quoted prices included in Level 1 that are observable either directly (i.e., prices) or indirectly (i.e., derived from prices) (Level 2).
- Inputs that are not based on observable market data (unobservable inputs) (Level 3).

	Valuation technique			
2017	Level 1	Level 2	Level 3	Total
Investments:				
HIUT	$ -	$ 15,068,940	$ -	$ 15,068,940

12. Financial risk management:

The Trust has exposure to financial risks associated with its financial instruments and benefit obligations. Analysis of sensitivity to specified risks is provided where there may be an effect on the financial position. These financial risks include credit risk, liquidity risk and market risks (currency, interest rate and other price risk). Sensitivity analysis is performed by relating the reasonably possible changes in the risk variables at December 31, 2017 to financial instruments outstanding on that date.

(a) Credit risk:

The Trust is exposed to credit risk resulting from:

- The possibility that parties may default on their financial obligations;
- If there is a concentration of transactions carried out with the same party; and
- If there is a concentration of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The Trust does not directly hold any collateral as security for financial obligations.

The maximum exposure of the Trust to credit risk at December 31 is as follows:

	2017
Cash	$ 9,506,728
Accrued interest and other receivables	8,324
Contributions receivable	6,881,767
	$ 16,396,819

Cash and investments:

Credit risk associated with cash is minimized substantially by ensuring that these assets are invested in financial obligations of: governments; major financial institutions that have been accorded investment grade ratings by a primary rating agency; and/or other creditworthy parties. The Trust's investments in the HIUT is similar to equity instruments. While the Trust has no direct credit risk arising from its investment in the HIUT, the Trust is exposed to the credit risks of the HIUT's underlying investments. BCI ensures that these underlying investments meet the Trust's investment policy.

Contributions and other receivables:

The Trustees believe credit risk with respect to receivables is limited due to the credit quality of the parties extended credit. Credit risk associated with amounts receivable from the Health Authorities, which represent the Trust's largest receivables, is minimal as the Health Authorities form part of the government reporting entity of the Province of British Columbia.

12. Financial risk management (continued):

(b) Liquidity risk:

Liquidity risk is the risk that the Trust will not be able to meet its obligations as they come due.

The Trust meets its liquidity requirements by holding assets that can be readily converted into cash, which are monitored and updated as required.

(c) Market risks:

The Trust is exposed to market risks through the fluctuation of financial instrument fair values or cash flows due to changes in market factors. The significant market risks to which the Trust is exposed are interest rate risk, currency risk, and other price risk.

(*i*) Interest rate risk:

Interest rate risk refers to the risk that the fair value of financial instruments or cash flows associated with the instruments will fluctuate due to changes in market interest rates.

The interest rate exposure of the Trust arises from its interest bearing assets and its fixed income investments including bonds and mortgages, which are held indirectly through the HIUT.

The Trust's cash includes amounts on deposit with financial institutions that earn interest at market rates. The Trust manages its exposure to the interest rate risk of its cash by maximizing the interest income earned on excess funds while maintaining sufficient liquidity necessary to conduct operations on a day-to-day basis. Fluctuations in market rates of interest on cash do not have a significant impact on the Trust's results of operations.

12. Financial risk management (continued):

(c) Market risks (continued):

(*i*) Interest rate risk (continued):

Maturity position - December 31, 2017:

	Demand	Less than twelve months	One to five years	Over five years	Total
Cash	$ 9,506,728	$ -	$ -	$ -	$ 9,506,728
Underlying fixed income investments held through pooled investment vehicles	-	1,159,544	3,019,477	3,341,890	7,520,910
	$ 9,506,728	$1,159,544	$ 3,019,477	$ 3,341,890	$ 17,026,639

The weighted average yield of these financial instruments is 2.40% at December 31, 2017. The weighted average term to maturity of interest bearing investments is 113 months. Should prevailing market interest rates increase or decrease by 2%, with all other variables held constant, this would decrease or increase, respectively, the December 31 carrying value of the Trust's investments by ($1,247,359) or $1,528,532.

(*ii*) Currency risk:

Currency risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate relative to the Canadian dollar due to changes in foreign exchange rates. The functional currency of the Trust is the Canadian dollar.

At December 31, 2017, the Trust had $5,305,984 of investments denominated in foreign currencies held indirectly through the HIUT. If the Canadian dollar had appreciated or depreciated by 2% against the underlying foreign currencies of these investments at that date, with all other variables held constant, the fair value of the investments would have decreased or increased, respectively, by $106,119.

The investment manager of the HIUT monitors the Trust's foreign currency exposure and manages this risk through diversification and consideration of global asset mix.

12. Financial risk management (continued):

(c) Market risks (continued):

(*ii*) Currency risk (continued):

The underlying foreign currencies in which investments are denominated are:

	2017
United States	$ 2,993,303
European Union	607,668
Japan	432,930
United Kingdom	310,063
Hong Kong	154,025
Switzerland	144,513
China	76,114
Singapore	33,336
Other	554,032
	$ 5,305,984

(*iii*) Other price risk:

Other price risk refers to the risk that the fair value of financial instruments or cash flows associated with the instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The Trust is indirectly exposed to other price risk through the underlying equity investments of the HIUT.

The long-term investment policy has a target asset allocation of 20% fixed income investments, 40% equities, and 40% private market investments, which includes infrastructure and real estate. To the extent that the Trustees are unable to allocate the entirety of the target allocation in respect to private market investments, the unallocated amount will be allocated to fixed income investments in the form of nominal bonds. Risk and volatility of investment returns are mitigated through diversification of investments in different countries, business sectors, and corporation sizes.

At December 31, 2017, the Trust’s total investments exposed to other price risk is $7,603,335 and excludes pooled fixed income funds, which are otherwise subject to interest rate risk. The Trustee’s best estimate of the effect on net assets as at December 31, 2017, of a reasonably possible increase or decrease of 10% in the equity and private markets, with all other variables held constant, would amount to an increase or decrease of approximately $760,334 respectively. In practice, the actual trading results may differ from this sensitivity analysis and the difference could be material.

12. Financial risk management (continued):

(d) Sensitivity analyses:

The sensitivity analyses included herein should be used with caution as the changes are hypothetical and are not predictive of future performance. The above sensitivities are calculated with reference to year-end balances and will change due to fluctuations in the balances in the future. In addition, for the purpose of the sensitivity analyses, the effect of a variation in a particular assumption on the fair value of the financial instruments was calculated independently of any change in another assumption. Actual changes in one factor may contribute to changes in another factor, which may either magnify or counteract the effect on the fair value of the financial instrument.

13. Capital management

The Trust's capital is comprised of its net assets. The Trust's objective for managing capital, including member contributions, is to ensure that the assets are invested soundly and effectively to meet the future obligations of the Trust. These assets are invested jointly with three other trusts in a common investment vehicle, the HIUT, for investment with BCI.