

SGEU Long Term Disability Plan
Financial Statements
December 31, 2020

To the Members of SGEU Long Term Disability Plan:


Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian accounting standards for pension plans (as applicable to LTD plans). This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Provincial Council is composed entirely of Members who are neither management nor employees of the Company. The Council is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial statements. The Council fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Council is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP is appointed by the Members to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and may meet periodically and separately with, both the Council and management to discuss their audit findings.

April 28, 2021



Richard Schramm
Director of Finance

To the Members of SGEU Long Term Disability Plan:

Opinion

We have audited the financial statements of SGEU Long Term Disability Plan (the "Company"), which comprise the statement of financial position as at December 31, 2020, and the statements of operations changes in net assets and cash flows 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 Company as at December 31, 2020, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for pension plans (as applicable to LTD plans).

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 Company 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 opinion.

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 Canadian accounting standards for pension plans (as applicable to LTD 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Suite 900, Royal Bank Building, 2010 - 11th Avenue, Regina, Saskatchewan, S4P 0J3

- 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 Company'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 Company 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.

Regina, Saskatchewan

April 28, 2021

MNP LLP

Chartered Professional Accountants

MNP

SGEU Long Term Disability Plan

Statement of Financial Position

As at December 31, 2020

	2020	2019
Assets		
Current		
Cash (Note 3)	227,063	60,746
Accounts receivable (Note 4)	205,851	48,067
Premiums receivable	603,182	448,050
Due from SGEU (Note 5)	1,319,020	626,484
	2,355,116	1,183,347
Investments (Note 6)	55,119,747	54,301,275
	57,474,863	55,484,622
Liabilities		
Current		
Line of credit (Note 3)	2,035,949	3,626,935
Accounts payable and accruals	948,703	202,958
	2,984,652	3,829,893
Provision for claims payable (Note 7)	52,688,000	48,858,000
	55,672,652	52,687,893
Significant event (Note 9)		
Net assets	1,802,211	2,796,729
	57,474,863	55,484,622

Approved on behalf of the Board


Teresa Sauer, President


Diane Ralph, First Vice President

The accompanying notes are an integral part of these financial statements

SGEU Long Term Disability Plan
Statement of Operations and Changes in Net Assets

For the year ended December 31, 2020

	2020	2019
Premium revenue	13,007,321	12,749,910
Expenses		
Administration	1,499,427	1,453,065
Appeal fees	216,783	202,334
Disability benefits	11,418,244	11,188,167
Change in provision for claims payable (Note 7)	3,830,000	1,118,000
Adjudication fees	920,655	907,428
	17,885,109	14,868,994
Deficiency of premium revenue over expenses	(4,877,788)	(2,119,084)
Other income		
Investment income	1,580,386	1,692,726
Unrealized gain on investments	2,302,884	4,771,357
	3,883,270	6,464,083
(Deficiency) excess of revenues over expenses	(994,518)	4,344,999
Net assets (deficiency), beginning of year	2,796,729	(1,548,270)
Net assets, end of year	1,802,211	2,796,729

The accompanying notes are an integral part of these financial statements

SGEU Long Term Disability Plan

Statement of Cash Flows

For the year ended December 31, 2020

	2020	2019
Cash provided by (used for) the following activities		
Operating activities		
(Deficiency) excess of revenues over expenses	(994,518)	4,344,999
Line of credit interest	109,012	132,267
Investment Income	(1,574,836)	(1,677,241)
Change in market value	(2,302,884)	(4,771,357)
Provision for claims payable	3,830,000	1,118,000
Custodian and management fees	359,250	351,136
	(573,976)	(502,196)
Changes in working capital accounts		
Accounts receivable	(157,784)	88,646
Premiums receivable	(155,132)	(133,780)
Accounts payable and accruals	745,745	(941,467)
	(141,147)	(1,488,797)
Financing activities		
Net payments to the general fund	(692,536)	(262,863)
Advances from line of credit (Note 3)	1,000,000	750,000
Increase (decrease) in cash resources	166,317	(1,001,660)
Cash resources, beginning of year	60,746	1,062,406
Cash resources, end of year	227,063	60,746

The accompanying notes are an integral part of these financial statements

SGEU Long Term Disability Plan
Notes to the Financial Statements
For the year ended December 31, 2020

1. Incorporation and operations

The Saskatchewan Government and General Employees' Union (SGEU) is a democratic union, through which members strive for healthy productive work environments and they provide quality public services and presentation for all interest groups.

The Saskatchewan Government and General Employees' Union Long-Term Disability Fund (the Fund) is a Fund used to account for the premiums, claims, investment and administrative transactions of the Long-Term Disability Plan (the Plan).

The Plan is intended to provide income protection for participating union members who are totally disabled, unable to work, and who are not covered by Workers' Compensation or automobile insurance. Plan participants consist of the members of the participating bargaining units of the plan. Bargaining units of SGEU can become participants of the plan through a vote to join decided by a majority.

The Saskatchewan Government and General Employees' Union Supervisory Committee (the Committee) is responsible for holding in trust and investing the monies of the Plan. The Committee is comprised of 24 elected representatives named by the SGEU participating bargaining units. The Committee is a standing committee of the Saskatchewan Government General Employees' Provincial Council.

Members of the participating bargaining units of the Plan, pay premiums into the plan at the rate of 1.5% of gross salary.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for pension plans and include the following significant accounting policies:

Investments

Investments are portfolio investments recorded at fair value with quoted market prices in active markets.

Provision for claims payable

The provision for claims payable represents the present value of future payments arising from claims made prior to year-end. The provision includes an estimated amount for claims incurred but not yet reported at year-end. The provision for claims payable is determined pursuant to an actuarial valuation. Any resulting change in this liability is recognized as a revenue or expense in the statement of operations and net assets.

Premium revenue

Premiums are recognized as revenue monthly and in the period which the premium is applicable to and is recorded when received or receivable, if the amount to be received can be reasonably estimated and collection is reasonably assured.

Disability benefits expense

Disability benefits expense is recognized in the year the claim occurred.

Income taxes

The Plan is exempt from taxes under the provision 149 (1)(l) of the Income Tax Act.

Investment income and change in market value

Investment income is recognized as revenue on an accrual basis, as earned. The change in market value of investments is recorded based upon the fair value of the investments in the prior year as compared to the fair value of the investments in the current year, adjusted for any investment purchases and disposals during the year.

SGEU Long Term Disability Plan
Notes to the Financial Statements
For the year ended December 31, 2020

2. Significant accounting policies *(Continued from previous page)*

Measurement uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary.

The provision for claims payable is based on a number of assumptions about future events including: recovery and mortality rates, interest rates and expected benefits from other sources. The actual experience may vary significantly from the assumptions used.

These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in excess of revenues over expenses in the year in which they become known.

Financial instruments

The Company recognizes its financial instruments when the Company becomes party to the contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value, including financial assets and liabilities originated and issued in a related party transaction with management.

At initial recognition, the Company may irrevocably elect to subsequently measure any financial instrument at fair value. The Company has elected to account for cash and investments at fair value. The Plan subsequently measures all financial assets and liabilities at amortized cost except cash and investments which are at fair value.

Transaction costs and financing fees directly attributable to the origination, acquisition, issuance or assumption of financial instruments subsequently measured at fair value are immediately recognized in net income/loss. Conversely, transaction costs and financing fees are added to the carrying amount for those financial instruments subsequently measured at cost or amortized cost.

Financial asset impairment:

The Plan assesses impairment of all its financial assets measured at cost or amortized cost. The Plan groups assets for impairment testing when available information is not sufficient to permit identification of each individually impaired financial asset in the group, there are numerous assets affected by the same factors and no asset is individually significant. Management considers whether the issuer is having significant financial difficulty or whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. When there is an indication of impairment, the Plan determines whether it has resulted in a significant adverse change in the expected timing or amount of future cash flows during the year. If so, the Plan reduces the carrying amount of any impaired financial assets to the highest of: the present value of cash flows expected to be generated by holding the assets; the amount that could be realized by selling the assets; and the amount expected to be realized by exercising any rights to collateral held against those assets. Any impairment, which is not considered temporary, is included in current year earnings.

The Company reverses impairment losses on financial assets when there is a decrease in impairment and the decrease can be objectively related to an event occurring after the impairment loss was recognized. The amount of the reversal is recognized in net income/loss in the year the reversal occurs.

SGEU Long Term Disability Plan Notes to the Financial Statements

For the year ended December 31, 2020

3. Cash / Line of Credit

Cash consists of amounts on deposit with the bank.

At December 31, 2020, the Plan had a line of credit with Royal Bank Dominion Securities with a maximum limit equal to the value of the investments, of which \$2,035,948 was drawn (2019 - \$3,626,935). The line of credit bears interest at prime and is due on demand. Accrued interest of \$109,012 was added to the line of credit (2019 - \$132,267). The line of credit is secured by a general security agreement. Collateral pledged as security are the Plan's investments.

As at December 31, 2020, the Plan had a line of credit with Affinity Credit Union with an approved limit of \$250,000 of which \$nil has been drawn (2019 - \$nil).

4. Accounts receivable

	2020	2019
Accounts receivable	231,610	309,719
Allowance for doubtful accounts	(25,759)	(261,652)
	205,851	48,067

5. Related party transactions

The SGEU Long-Term disability plan is related to the Saskatchewan Government and General Employees' Union by virtue of common control. The members of the SGEU LTD Plan are also members SGEU. At December 31, 2020, the Plan has recorded an amount receivable from SGEU general fund of \$1,319,020 (2019 - \$626,484). This amount is based on the exchange amounts.

6. Investments

The investment objectives of the Plan are to generate an optimal real rate of return while at the same time emphasizing the preservation of capital and avoiding excessive volatility.

The Plan's investments are comprised of the following:

	2020	2019
Cash	1,411,961	1,190,269
Fixed income (interest of 1.75% - 5.85%; maturing between December 5, 2022 - December 1, 2048)	14,389,397	14,666,929
Preferred shares	248,745	-
Common shares	25,054,552	25,098,881
Foreign securities	3,442,770	3,347,834
Mutual funds	10,572,322	9,997,362
	55,119,747	54,301,275

SGEU Long Term Disability Plan
Notes to the Financial Statements
For the year ended December 31, 2020

7. Provision for claims payable

An actuarial valuation was performed by Towers Watson as at December 31, 2020 to determine the liability for the future cost of existing claims. The valuation also includes a provision for claims incurred but not yet reported.

The actuarial valuation of claims as at December 31, 2020 and the principal components of the change in the actuarial valuation during the year were as follows:

	2020	2019
Provision for claims payable, beginning of year	48,858,000	47,740,000
Interest on accrued benefits	1,816,000	1,875,000
Change in assumptions	2,864,000	957,000
Benefits accrued - new claims	11,384,000	10,139,000
Benefits paid	(12,234,000)	(11,853,000)
	52,688,000	48,858,000

The amount of benefits payable under the Long-term Disability Plan may be increased on January 1 each year. The increase in benefits is indexed.

The liability for claims is based on a number of assumptions about future events including: recovery and mortality rates, interest rates and expected benefits from other sources. The actual experience may vary significantly from the assumptions used.

The actuary is appointed by SGEU's Council. The actuary is responsible for ensuring that the assumptions and methods used in management's valuation of Provision for Claims Payable are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. The actuary is also required to provide an opinion regarding the appropriateness of the Plan's Provision for Claims Payable as at December 31, 2019. Examination of supporting data for accuracy and completeness, a review of the valuation process used and an analysis of the Plan's assets are important elements of the work required to form this opinion. In carrying out their work, the actuary considers the work of the external auditors in verifying data used for valuation purposes.

The valuation is based on the following assumptions:

<u>Assumptions</u>	<u>2020</u>	<u>2019</u>
Termination rate of claims	2011 Canadian Institute of Actuaries Group LTD Termination Table, adjusted for experience.	2011 Canadian Institute of Actuaries Group LTD Termination Table, adjusted for experience.
Expected return on assets and discount rate	3.25%	3.75%
Inflation rate	2.00% - based on the consumer price index	2.00% - based on the consumer price index
Cost of living adjustments to gross benefits	1.00%	1.00%
Percentage of claimants expected to be accepted for extension of benefits to age 65	40%	35%
Incurred but not yet reported claims	6/12ths of the estimated current year claims cost	6/12ths of the estimated current year claims cost

SGEU Long Term Disability Plan
Notes to the Financial Statements
For the year ended December 31, 2020

8. Financial instruments

The Company, as part of its operations, carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

Credit concentration

Accounts receivable from two employers represents 69% (2019 - 66%) of total accounts receivable as at December 31, 2020. The Company believes that there is minimal risk associated with the collection of these amounts.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk.

The Company is exposed to interest rate cash flow risk with respect to its long term investments which are subject to varying interest rates.

The Plan is also exposed to interest rate cash flow risk with the line of credit, which has a variable interest rate on outstanding balances.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company enters into transactions to earn a return on investment denominated in foreign currency for which the related revenues and expense balances are subject to exchange rate fluctuations. As at December 31, 2020, the following items are denominated in foreign currency:

	2020	2019
	CAD\$	CAD\$
Investments - foreign securities	3,442,770	3,347,834

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's exposure to liquidity risk is dependent on the collection of accounts receivable, purchasing commitments and obligations or raising funds to meet commitments and sustain operations.

Market risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. SGEU manages market risk through the statement of investment policies and managing performance with the investment manager.

SGEU Long Term Disability Plan
Notes to the Financial Statements
For the year ended December 31, 2020

9. Significant event

In March 2020, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the Union as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. While the extent of the impact is unknown, we anticipate this outbreak may cause staff shortages and increased government regulations, all of which may negatively impact the Company's business and financial condition.

10. Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.