

Geraldine Espley, CPA, CA

BENEPLAN EMPLOYEE BENEFITS CO-OPERATIVE INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2013

Geraldine Espley, CPA, CA

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INDEPENDENT AUDITOR'S REPORT

To the Members of
BENEPLAN EMPLOYEE BENEFITS CO-OPERATIVE INC.

I have audited the accompanying financial statements of BENEPLAN EMPLOYEE BENEFITS CO-OPERATIVE INC., which comprise the balance sheet as at December 31, 2013, and the statements of operations, IBNR reserve, and cash flows for the year then ended, and notes providing 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 private enterprises, 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 the auditor's 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, the auditor considers 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Geraldine Espley, CPA, CA

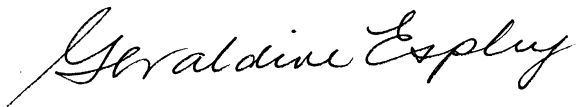
INDEPENDENT AUDITOR'S REPORT (Continued)

Basis for Qualified Opinion

As explained in Note 2, in the section on revenue recognition, due to the nature of some of the components of revenue, I was unable to obtain sufficient appropriate audit evidence about the total value of the Co-operative's revenue. Consequently, I was unable to determine whether any adjustments to this amount were necessary.

Opinion

In my opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion" paragraph above, the financial statements present fairly, in all material respects, the financial position of BENEPLAN EMPLOYEE BENEFITS CO-OPERATIVE INC. as at December 31, 2013, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.



Chartered Accountant
Licensed Public Accountant
Burlington, Ontario
March 7, 2014

BENEPLAN EMPLOYEE BENEFITS CO-OPERATIVE INC.
BALANCE SHEET
AS AT DECEMBER 31, 2013
(Canadian Funds, rounded to \$1)

ASSETS

CURRENT

| | |
|---------------------|------------------|
| Cash (Note 3) | \$ 495,512 |
| Accounts receivable | 1,354,606 |
| | <u>1,850,118</u> |

OTHER

| | |
|-----------------------------------------------------------|---------------|
| Incorporation cost, net of \$774 accumulated amortization | <u>21,006</u> |
|-----------------------------------------------------------|---------------|

TOTAL ASSETS

\$ 1,871,124

LIABILITIES

CURRENT

| | |
|--------------------------------------|------------------|
| Accounts payable and accrued charges | \$ 25,692 |
| Patronage dividends payable | 1,340,106 |
| | <u>1,365,798</u> |

LONG-TERM

| | |
|-----------------------|----------------|
| IBNR Reserve (Note 4) | <u>505,326</u> |
|-----------------------|----------------|

TOTAL LIABILITIES

\$ 1,871,124

APPROVED ON BEHALF OF THE BOARD:

_____, Director

_____, Director

The Auditor's Report and Notes form an integral part of these financial statements.

Geraldine Espley, CPA, CA

BENEPLAN EMPLOYEE BENEFITS CO-OPERATIVE INC.
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Canadian Funds, rounded to \$1)

| | |
|---------------------------------------------|----------------------|
| REVENUE (Note 5) | \$ 1,388,256 |
| | |
| EXPENSES | |
| Amortization | 774 |
| Bank Charges | 316 |
| Insurance (Note 6) | 2,684 |
| Professional Fees | 13,560 |
| Publications and meetings | 11,194 |
| Net contribution to IBNR Reserve | 19,622 |
| | <hr/> |
| | 48,150 |
| NET INCOME before patronage dividend | 1,340,106 |
| Patronage dividends | 1,340,106 |
| | <hr/> |
| NET INCOME | \$ <u><u>NIL</u></u> |

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Geraldine Espley, CPA, CA

BENEPLAN EMPLOYEE BENEFITS CO-OPERATIVE INC.
STATEMENT OF IENR RESERVE
FOR THE YEAR ENDED DECEMBER 31, 2013
(Canadian Funds, rounded to \$1)

| | |
|--------------------------------------------------|--------------------------|
| Balance at beginning of year (Note 1) | \$ 519,354 |
| Add: Contributions for year | <u>65,739</u> |
| | 585,093 |
| Less: Refunds of cumulative excess contributions | (46,117) |
| Reserves forfeited to cover deficits | (5,122) |
| Contribution to operating expenses | <u>(28,528)</u> |
| Balance at end of year | <u><u>\$ 505,326</u></u> |

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Geraldine Espley, CPA, CA

BENEPLAN EMPLOYEE BENEFITS CO-OPERATIVE INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
(Canadian Funds, rounded to \$1)

OPERATING ACTIVITY

| | | |
|--------------------------|----|-----|
| Net income | \$ | NIL |
| Item not affecting cash: | | |
| Amortization | | 774 |
| | | 774 |

| | | |
|--------------------------------------|--|-------------|
| Changes in non-cash working capital: | | |
| Accounts receivable | | (1,354,606) |
| Accounts payable and accrued charges | | 22,560 |
| Patronage dividends payable | | 1,340,106 |
| | | 8,834 |

FINANCING ACTIVITY

| | | |
|-------------------------------|--|----------|
| Incorporation cost | | (21,780) |
| Net reduction in IBNR Reserve | | (14,028) |
| | | (35,808) |

NET DECREASE IN CASH (26,974)

CASH, at beginning of year 522,486

CASH, at end of year \$ 495,512

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BENEPLAN EMPLOYEE BENEFITS CO-OPERATIVE INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

1. NATURE OF BUSINESS

Beneplan Employee Benefits Co-operative Inc. is a Co-operative Corporation without share capital, incorporated on April 29, 2013, according to the provisions of the Co-operative Corporations Act of Ontario, to continue operating the business previously carried on by the Multi-Employer Health Trust, which had been wound up effective December 31, 2012. The Co-operative assumed the assets, liabilities, and reserves of the Trust immediately upon its dissolution, so that the business could be continued without interruption while waiting for the formal incorporation of the Co-operative to take place.

Assets and liabilities transferred from the Trust to the Co-operative were as follows:

| | |
|------------------|------------|
| Cash | \$ 522,486 |
| Accounts payable | (3,131) |
| IBNR Reserve | (519,355) |

The Co-operative, administered by Beneplan Inc., its Executive Officer, is a voluntary association of employers for the purpose of pooling their group insurance experience. Premiums for health, dental, and life insurance are paid by all employers to the Co-operators and for some paramedical coverage to Beneplan Inc. The Co-operators administers the group insurance plan throughout the year and refunds the net surplus of premiums over claims and costs at year-end, to the Co-operative. Beneplan Inc. refunds a similarly derived surplus of Paramedical premiums over claims and costs to the Co-operative. The Executive Officer then allocates this surplus among the member-employers according to a formula, the simplified version of which is:

1. Apportion the total life insurance refund to members pro-rata to their life insurance premiums.
2. Apply each member's life insurance surplus as needed, to fund its health, dental, and paramedical deficit.
3. Allocate some part of each member's health, dental, and paramedical surplus, pro-rata to its claims, to cover the deficits of those members with remaining deficits.
4. Retain a portion of each member's surplus to fund the IBNR Reserve (see Note 4).
5. Pay out the balance of each member's surplus as a patronage dividend.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial statements

These financial statements are prepared in accordance with Canadian accounting standards for private enterprises.

Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the

BENEPLAN EMPLOYEE BENEFITS CO-OPERATIVE INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates (continued)

disclosure of contingent assets and liabilities at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The only item in these financial statements for which an estimate was necessary is accounts payable and accrued charges, since actual amounts were not known at the date of the balance sheet.

Revenue recognition

Revenue to the Co-operative consists mainly of the net surplus amounts calculated on all members' health, dental, and paramedical group insurance policies, as well as refunds of excess premiums on life insurance policies, calculated as explained in Note 1.

The total health and dental surplus is calculated by Beneplan Inc., the Executive Officer of the Co-operative, in February each year for the preceding year, from experience records provided by the Co-operators, with premiums tested for validity to the monthly records maintained by Beneplan and adjusted where necessary to convert from cash-basis to accrual-basis reporting. Claims amounts are not tested, due to the limitations imposed by privacy legislation. Representatives from Beneplan Inc. and the Co-operators keep in constant contact throughout this process to ensure agreement between them as to the final surplus amounts to be refunded.

Paramedical surplus is calculated by Beneplan Inc., on the Paramedical portion which it administers. There are no independent third-party records against which to compare the results of these calculations.

Life insurance refunds are calculated by the Co-operators. Beneplan staff closely examine the calculation of these refunds for accuracy, except that no verification of the waiver reserves is possible due to privacy legislation, which protects the health information necessary for their determination.

Given the nature of some of the components of revenue, as outlined above, standard audit tests for accuracy and completeness cannot be applied to them, and misstatements in the total revenue amount due to error could still exist, without any reasonable way to quantify such potential misstatements.

Financial instruments

The Co-operative initially measures its financial assets and financial liabilities at fair value. The Co-operative subsequently measures its financial assets and financial liabilities at cost, which is always assumed to closely approximate fair value due to their nature or capacity for prompt liquidation.

Financial assets and liabilities measured at cost (= fair value) include cash, accounts receivable, accounts payable and accrued charges, and patronage dividends payable. In management's opinion, the Co-operative is not exposed to significant interest rate, credit, market, or liquidity risk.

BENEPLAN EMPLOYEE BENEFITS CO-OPERATIVE INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Incorporation costs, being of an immaterial amount, are amortized on the declining-balance basis at amortization rates prescribed by the Canadian Income Tax Act.

3. CASH

It is management's intention to keep any cash not required for current operations invested in short-term guaranteed investment certificates. Subsequent to the date of the balance sheet, the amount of \$450,000 was invested in a GIC with the CIBC for a term of one year at 1.0%, to mature on February 10, 2015.

4. IBNR RESERVE

This is a reserve for health and/or dental and/or paramedical claims which are "incurred but not reported" (thus, "IBNR") at any given time. It is increased each year by contributions from the surplus otherwise payable to each member, by the amount necessary to bring each member's cumulative contribution to a "target" of 5% of its weighted average claims over the past three years, with the limitation that the annual contribution is not to exceed 10% of the health, dental, and paramedical surplus otherwise payable to the member for the year. If at any time any member's cumulative reserve exceeds its target reserve by more than 10%, such excess is to be refunded to the member. Members withdrawing from the Co-operative forfeit their accumulated paid-in reserves to the Co-operative. The IBNR Reserve is retained to cover any as-yet-unreported claims which may exist at such time as the Co-operative is wound up. Any surplus reserve not used to cover such claims after a suitable interval will be paid out to the remaining members of the Co-operative at that time, pro-rata to their accumulated contributions.

5. REVENUE

Revenue consists of the following:

| | |
|------------------------------------------------------------|--------------|
| The Co-operators - Health and Dental Surplus refund | \$ 958,152 |
| The Co-operators - Life Insurance refund | 255,912 |
| Beneplan Inc. - Paramedical Surplus refund | 140,542 |
| Appropriations from reserve to cover deficits and expenses | 33,650 |
| | <hr/> |
| | \$ 1,388,256 |
| | <hr/> <hr/> |

6. INSURANCE

This represents Directors' Liability Insurance, as authorized by the by-laws of the Co-operative.

7. COMPARATIVE FIGURES

There are no comparative figures to present, since this is the first year of operation of the Co-operative.

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BENEPLAN EMPLOYEE BENEFITS CO-OPERATIVE INC.
UNAUDITED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2013

SUPPLEMENTARY INFORMATION

The following is offered for information only, and does not form part of the audited financial statements:

Administration fees and commissions

The following fees were deducted, along with claims and other costs, in arriving at the health and dental surplus to be refunded by the Co-operators:

| | |
|----------------------------------------------|--------------|
| Administration fees paid to the Co-operators | \$ 564,927 |
| Administration fees paid to Beneplan Inc. | 729,822 |
| Sub-commissions paid to others | 368,757 |
| | <hr/> |
| | \$ 1,663,506 |
| | <hr/> <hr/> |

Refunds due to non-members

Four member-employers have chosen not to include the dental portion of their group insurance plans in the Co-operative. The Co-operators will refund the net dental surplus applicable to this group, in the amount of \$37,154.20, to the Co-operative in trust for these members, and the Co-operative will in turn issue the refunds (three members) and collect payment for the deficit (one member). This is not strictly the business of the Co-operative, and will be handled only as a courtesy to these members, on a flow-through basis. This \$37,154.20 has not been accounted for in the accounts receivable or accounts payable in these financial statements.

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