

Financial Statements of

**HEALTHCARE EMPLOYEES
BENEFITS PLAN - MANITOBA -
DENTAL PLAN AND EXTENDED
HEALTH PLAN**

Years ended December 31, 2011 and 2010



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of Healthcare Employees Benefits Plan - Manitoba - Dental Plan and Extended Health Plan

We have audited the accompanying financial statements of Healthcare Employees Benefits Plan - Manitoba - Dental Plan and Extended Health Plan, which comprise the statements of financial position as at December 31, 2011 and December 31, 2010, the statements of changes in net assets available for benefits for the years ended December 31, 2011 and December 31, 2010, 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 audits. We conducted our audits 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 of 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 in our audits 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 Healthcare Employees Benefits Plan - Manitoba - Dental Plan and Extended Health Plan as at December 31, 2011 and December 31, 2010, and its changes in net assets available for benefits for the years ended December 31, 2011 and December 31, 2010 in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Accountants

June 21, 2012

Winnipeg, Canada

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DENTAL PLAN AND EXTENDED HEALTH PLAN

Statements of Financial Position

December 31, 2011 and 2010

	2011	2010
Assets		
Cash	\$ 624,435	\$ 445,264
Premiums receivable	3,518,788	3,193,199
Receivable from Manitoba Blue Cross	336,857	390,783
Prepaid expenses	7,106	6,135
Due from Manitoba Blue Cross (note 3):		
Dental Plan	903,785	1,642,148
Extended Health Plan	15,836,205	11,159,995
Total assets	\$ 21,227,176	\$ 16,837,524
Liabilities		
Claims payable and accrued liabilities	\$ 4,054,732	\$ 3,676,481
Government remittances payable	10,649	12,145
Due to Healthcare Employees Pension Plan - Manitoba (note 10)	128,126	75,757
Obligations for IBNR (note 4):		
Dental Plan	397,581	602,479
Extended Health Plan	1,903,726	1,575,832
	2,301,307	2,178,311
Total liabilities	6,494,814	5,942,694
Commitment (note 11)		
Net assets available for benefits (note 5)	\$ 14,732,362	\$ 10,894,830

See accompanying notes to financial statements.

Approved by the Trustees:

Brian Ellis Chair

[Signature] Vice-Chair

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DENTAL PLAN AND EXTENDED HEALTH PLAN

Statements of Changes in Net Assets Available for Benefits

Years ended December 31, 2011 and 2010

	Dental Plan	Extended Health Plan	2011 Total	2010 Total
Increases:				
Premiums	\$ 19,788,562	\$ 29,012,307	\$ 48,800,869	\$ 46,255,754
Investment interest income	38,136	227,352	265,488	150,040
	19,826,698	29,239,659	49,066,357	46,405,794
Decreases:				
Claims incurred	19,083,868	21,455,167	40,539,035	38,584,102
Interest - Blue Cross Administrative - HEBP (notes 6 and 10)	4,621	–	4,621	2,057
Administrative - Blue Cross	517,950	755,908	1,273,858	1,174,783
Travel health insurance premiums	954,193	1,287,309	2,241,502	2,134,302
	–	1,046,813	1,046,813	1,007,992
	20,560,632	24,545,197	45,105,829	42,903,236
Increase (decrease) in net assets prior to change in obligations for IBNR	\$ (733,934)	\$ 4,694,462	\$ 3,960,528	\$ 3,502,558
Change in obligations for IBNR	204,898	(327,894)	(122,996)	419,356
Increase (decrease) in net assets available for benefits	\$ (529,036)	\$ 4,366,568	\$ 3,837,532	\$ 3,921,914
Net assets available for benefits, beginning of year	1,186,167	9,708,663	10,894,830	6,972,916
Net assets available for benefits, end of year	\$ 657,131	\$ 14,075,231	\$ 14,732,362	\$ 10,894,830

See accompanying notes to financial statements.

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DENTAL PLAN AND EXTENDED HEALTH PLAN

Notes to Financial Statements

Years ended December 31, 2011 and 2010

1. General and description of the Plans:

The Healthcare Employees Benefits Plan - Manitoba (HEBP) is a jointly trustee, not-for-profit organization which includes the dental plan and extended health plan (the Plans) for healthcare employees in Manitoba.

The Plans are registered as health and welfare trusts under the *Income Tax Act* and are not subject to income taxes.

The dental plan and extended health plan provide dental coverage and health benefits to participating active employees. They also include a retiree plan with basic - ambulance/semi-private plan and an enhanced health plan. Claims administration and adjudication for these plans is provided by Manitoba Blue Cross. The Plans are on a self-insured budgeted administrative services only basis (BASO).

2. Significant accounting policies:

(a) Basis of presentation:

The Plans adopted Canadian accounting standards for pension plans on January 1, 2011 with a transition date of January 1, 2010. Canadian accounting standards for pension plans requires the Plans, in selecting or changing accounting policies that do not relate to their investment portfolio or pension obligations, to comply on a consistent basis with either International Financial Reporting Standards (IFRS) or Canadian accounting standards for private enterprises (ASPE). The Plans have chosen to comply on a consistent basis with ASPE. In accordance with these standards, the statement of net assets is replaced by the statement of financial position. There were no adjustments to previously reported amounts as a result of implementing these changes.

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Plans as a separate financial reporting entity, independent of the participating employers and members. Only the assets and obligations to members eligible to participate in the Plans have been included in these financial statements. These financial statements do not portray the funding requirements of the Plans or the benefit security of the individual plan members.

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DENTAL PLAN AND EXTENDED HEALTH PLAN

Notes to Financial Statements (continued)

Years ended December 31, 2011 and 2010

2. Significant accounting policies (continued):

(b) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Cash and investments, if any, are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Plans have elected not to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs. These costs are amortized using the straight-line method.

(c) Premiums:

Premiums recorded in the statement of changes in net assets available for benefits include the employees' and employers' share of the premiums required for dental and extended health coverage. Premiums are recorded on an accrual basis.

(d) Claims:

Claims are recorded in the period in which they are paid or payable. Any claims not paid at fiscal year-end are reflected in claims payable and accrued liabilities.

(e) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets available for benefits during the year. Actual results could differ from those estimates.

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DENTAL PLAN AND EXTENDED HEALTH PLAN

Notes to Financial Statements (continued)

Years ended December 31, 2011 and 2010

3. Due from Manitoba Blue Cross:

The amounts due from Manitoba Blue Cross are funds held by Manitoba Blue Cross to fund the Plans' obligations for IBNR, which are fully funded, and the claims fluctuation reserves, which are partially funded as disclosed in note 5. In addition, the amounts due from Manitoba Blue Cross include accumulated annual experience gains (losses) in the Dental Plan and Extended Health Plan.

Interest was earned on the amounts due from Manitoba Blue Cross ranging from 1.10 percent to 1.69 percent (2010 - 0.40 percent to 1.43 percent).

4. Obligations for incurred but not reported (IBNR):

The obligations for IBNR are estimates of claims which have been incurred but not reported at the date of the financial statements. The obligations are based on a study of claims during the fiscal year and are specific to the type of benefits provided.

For the year ended December 31, 2010, Manitoba Blue Cross amended its calculation used to estimate the obligations for IBNR. As a result of this change, the obligation for IBNR decreased by \$696,980 as at December 31, 2010.

5. Net assets available for benefits:

The Board of Trustees has approved the establishment of claims fluctuation reserves (CFR) from the net assets available for benefits. The target reserve for the Dental Plan has been established at an amount equal to 10 percent of the current year's premiums for the Dental Plan and is not fully funded.

The Extended Health Plan consists of the Active and Retired plans. The target reserve for each of these plans has been established at an amount equal to 15 percent of the current year's premiums. The Active plan has fully funded reserves while the Retired plans are not fully funded.

The following net assets available for benefits have been restricted for CFR:

	2011	2010
Dental Plan	\$ 492,728	\$ 1,103,814
Extended Health Plan	4,194,825	4,027,370
	<u>\$ 4,687,553</u>	<u>\$ 5,131,184</u>

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DENTAL PLAN AND EXTENDED HEALTH PLAN

Notes to Financial Statements (continued)

Years ended December 31, 2011 and 2010

6. Administrative expenses:

	Dental Plan	Extended Health Plan	2011 Total	2010 Total
Salaries and benefits	\$ 411,225	\$ 602,904	\$ 1,014,129	\$ 925,129
Trustee and custodial fees	3,870	5,804	9,674	10,274
Audit fees	2,242	3,288	5,530	4,141
Legal fees	130	191	321	1,468
Other	100,483	143,721	244,204	233,771
	\$ 517,950	\$ 755,908	\$ 1,273,858	\$ 1,174,783

7. Capital management:

The main objective of the Plans is to sustain a certain level of net assets in order to meet the obligations of the Plans. Increases in net assets are a direct result of investment income generated by the Plans and premiums paid into the Plans by eligible employees and by the employers. The main use of net assets is for payment of claims of eligible members of the Plans.

8. Risk management:

(a) Market risk:

Management of the Plans believe they are not exposed to any market risks including interest rate, currency and other price risk in relation to the Plans' financial instruments.

(b) Credit risk:

Credit risk associated with premiums and other receivables is minimized due to their nature. Premiums are collected from participating members through the payroll process. No provision for doubtful premiums and other receivables has been recorded in either 2011 or 2010.

(c) Liquidity risk:

Liquidity risk is the possibility that financial assets of the Plans cannot be readily converted into cash when required. Liquidity risk is managed through premiums received being held by Manitoba Blue Cross on behalf of the Plans to fund the Plans' obligations. The Plans' claims payable and accrued liabilities and due to HEPP have contracted maturities of less than one year.

HEALTHCARE EMPLOYEES BENEFITS PLAN - MANITOBA - DENTAL PLAN AND EXTENDED HEALTH PLAN

Notes to Financial Statements (continued)

Years ended December 31, 2011 and 2010

8. Risk management (continued):

(d) Claims and premiums risk:

The nature of the unpaid claims is such that the establishment of obligations is based on known facts and interpretation of circumstances, on a case by case basis, and is therefore a complex and dynamic process influenced by a variety of factors.

Consequently, the establishment of obligations and premium rates relies on the judgment and opinions of a number of professionals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining premium rates and reserves necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

9. Fair value of financial instruments:

On an annual basis, Manitoba Blue Cross establishes the interest rates to be paid on the amounts due to the Plans (note 3) based on market-related indicators. As a result, the fair value of the amounts due from Manitoba Blue Cross approximates their carrying value.

The fair value of the remaining financial assets and liabilities of the Plans approximates their carrying value due to their short-term nature.

10. Related party transactions:

HEBP and the Healthcare Employees Pension Plan - Manitoba (HEPP) have a certain number of common trustees and a cost sharing agreement to allocate certain costs based on factors such as square footage, number of employees and time usage. The balance due to HEPP is non-interest bearing, and has no fixed terms of repayment.

11. Commitment:

The Plans lease office space under various operating leases with varying expiry dates up to December 31, 2015. The Plans' allocation of annual lease payments to expiry is as follows:

2012	\$	76,000
2013		77,000
2014		77,000
2015		77,000
	\$	307,000
