

Financial Statements of

**HEALTHCARE EMPLOYEES  
PENSION PLAN - MANITOBA**

Year ended December 31, 2006



**KPMG LLP**  
**Chartered Accountants**  
Suite 2000 – One Lombard Place  
Winnipeg MB R3B 0X3  
Canada

Telephone (204) 957-1770  
Fax (204) 957-0808  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## AUDITORS' REPORT

To the Board of Trustees of the Healthcare Employees Pension Plan - Manitoba

We have audited the statement of net assets of the Healthcare Employees Pension Plan - Manitoba as at December 31, 2006 and the statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Plan's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets of the Plan as at December 31, 2006 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Signed "**KPMG LLP**"

Chartered Accountants

Winnipeg, Canada

May 31, 2007

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

## Statement of Net Assets

December 31, 2006, with comparative figures for 2005

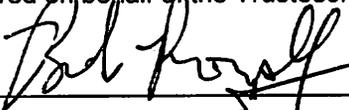
	2006	2005
<b>Assets</b>		
Cash	\$ 27,363,408	\$ 21,142,345
Contributions and other receivables (note 4)	13,514,883	11,559,722
Investment income receivable	7,761,204	8,608,388
Investments (note 5)	3,366,317,999	2,933,844,519
Capital assets (note 6)	2,803,934	3,167,080
	<u>\$ 3,417,761,428</u>	<u>\$ 2,978,322,054</u>

## Liabilities and Net Assets

Accrued benefit payments and liabilities	\$ 19,623,463	\$ 18,495,038
Due to brokers	22,545	3,401,382
	<u>19,646,008</u>	<u>21,896,420</u>
Net assets represented by:		
Pension Fund	3,395,311,486	2,953,258,554
Capital Fund	2,803,934	3,167,080
	<u>3,398,115,420</u>	<u>2,956,425,634</u>
Contingency (note 12)		
	<u>\$ 3,417,761,428</u>	<u>\$ 2,978,322,054</u>

See accompanying notes to financial statements.

Approved on behalf of the Trustees:

  
\_\_\_\_\_  
Chair

  
\_\_\_\_\_  
Vice-Chair

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

## Statement of Changes in Net Assets

Year ended December 31, 2006, with comparative figures for 2005

	Pension Fund	Capital Fund	2006 Total	2005 Total
Increase in net assets:				
Pension fund contributions:				
Employer	\$ 84,418,460	\$ —	\$ 84,418,460	\$ 71,603,278
Employee	84,418,460	—	84,418,460	71,603,278
Reciprocal transfers and buybacks:				
Employer	646,208	—	646,208	1,013,603
Employee	724,759	—	724,759	1,054,975
Investment income (note 7)	98,574,039	—	98,574,039	88,699,798
Current period change in market value of investments	301,019,949	—	301,019,949	248,889,987
Total increase in net assets	569,801,875	—	569,801,875	482,864,919
Decrease in net assets:				
Pension payments	91,247,538	—	91,247,538	83,804,729
Termination refunds	19,992,030	—	19,992,030	23,632,155
Investment management fees	9,530,753	—	9,530,753	8,397,156
Administrative expenses	3,936,116	—	3,936,116	2,984,566
Amortization of capital assets	—	1,432,772	1,432,772	297,475
Professional fees	99,524	—	99,524	73,611
Special project expenses	779,028	—	779,028	1,280,630
Custodial fees	708,479	—	708,479	772,299
Actuarial fees	385,849	—	385,849	306,451
Total decrease in net assets	126,679,317	1,432,772	128,112,089	121,549,072
Increase (decrease) in net assets prior to inter-fund transfers	443,122,558	(1,432,772)	441,689,786	361,315,847
Inter-fund transfers (note 6)	(1,069,626)	1,069,626	—	—
Increase (decrease) in net assets	442,052,932	(363,146)	441,689,786	361,315,847
Net assets, beginning of year	2,953,258,554	3,167,080	2,956,425,634	2,595,109,787
Net assets, end of year	\$ 3,395,311,486	\$ 2,803,934	\$ 3,398,115,420	\$ 2,956,425,634

See accompanying notes to financial statements.

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements

Year ended December 31, 2006

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## 1. General:

The Plan is governed by a Board of Trustees appointed by signatory employers and unions. The Plan has received approval from Canada Revenue Agency (CRA) for registration as a Specified Multi-Employer Plan and the Manitoba Pension Commission has registered the Plan as a Multi-unit Pension Plan.

## 2. Description of the Plan:

The following description of the Plan is a summary only. For more complete information reference should be made to the Plan Text.

### (a) General:

The Plan is a multi-employer defined benefit pension plan for all employees of participating healthcare facilities in the Province of Manitoba.

### (b) Funding policy:

Employers and employees contribute equally to fund the benefits under the Plan.

Employers and employees are required to contribute to the Plan a certain percentage of the members' earnings up to the legislated Year's Maximum Pensionable Earnings (YMPE) plus a certain percentage of the members' earnings in excess of the YMPE, as established by the settlors of the Plan.

The settlors of the Plan have approved the following contribution rate percentages for 2005 through 2007:

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		January 1 to June 30	July 1 to December 31
2005	Below YMPE	5.0%	6.4%
	Above YMPE	6.6%	8.0%
2006	Below YMPE	6.4%	6.6%
	Above YMPE	8.0%	8.2%
2007	Below YMPE	6.6%	6.8%
	Above YMPE	8.2%	8.4%

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# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2006

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## 2. Description of the plan (continued):

### (c) Normal retirement pension benefits:

Normal retirement pension benefits commence the first month coincident with or immediately following the attainment of age 65. The annual earned pension payable to a member on normal or postponed retirement is based on years of service and contributory earnings.

### (d) Early retirement pension benefits:

A member may elect to retire early provided that:

- the member has completed at least two years of service and attained age 55; or
- the total of the member's age plus years of service total at least 80.

If at the member's early retirement date:

- the member has attained age 60 and two years of service; or
- the member's age plus years of service total at least 80,

then the member shall receive normal pension benefits.

If at the member's early retirement date the member's age is between 55 and 60 and the member has not achieved the total of 80 based on age and years of service, pension benefits will be reduced in accordance with the Plan Text.

### (e) Postponed retirement benefits:

Retirement benefits cannot be postponed beyond the end of the year in which a member turns 69 years of age.

### (f) Death benefits:

Prior to retirement, upon the death of a member who has completed two years of service, the beneficiary is eligible to receive a death benefit.

If less than two years of service has been completed, then the beneficiary is eligible to receive the related contributions plus interest.

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2006

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## 2. Description of the plan (continued):

### (g) Benefits on termination:

In the event of termination after two years of service, the members are entitled to a return of their contributions plus the value of their earned pension.

If less than two years service has been completed then members shall receive their contributions plus credited interest.

### (h) Income taxes:

The Plan is a Pension Trust as defined in the *Income Tax Act* and is not subject to income taxes.

## 3. Significant accounting policies:

### (a) Basis of presentation:

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

### (b) Fund accounting:

Assets, liabilities, revenues and expenses related to the Plan's capital assets are recorded in the Capital Fund. All other assets, liabilities, revenues and expenses are reported in the Pension Fund.

### (c) Investments:

Investments are stated at market value as follows:

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2006

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## 3. Significant accounting policies (continued):

### (i) Short-term investments:

Short-term investments are valued at cost plus accrued interest, which approximates market value, with maturities up to one year.

### (ii) Bonds:

Bonds are valued using published market quotations or by a yield-to-maturity calculation where published rates are not available.

Bond pooled fund units are recorded at market values established by the respective fund trustee.

### (iii) Mortgages:

Mortgage investments held in mortgage pooled funds are recorded at market values established by the respective fund trustee.

### (iv) Equities:

All listed equities traded on recognized exchanges are priced based on the latest price reported by the exchange. If a closing trade price is unavailable, a latest bid price is reflected. If no bid price is available, the most recent trade price is used.

All private equities are valued by the general partner, who in its determination of fair market value considers any legal sale or other liquidity restrictions on the investment. Purchases and sales are recorded on the closing date of the transactions.

### (v) Real estate:

Real estate investments held in pooled funds are recorded at market values established by the respective fund trustee. Real estate properties are recorded at market value as established by an annual appraisal conducted by qualified external real estate appraisers. Real estate acquired within the year is recorded at cost, which approximates its market value.

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2006

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## 3. Significant accounting policies (continued):

### (d) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated useful life of an asset are capitalized. When a capital asset no longer contributes to the Plan's ability to provide services, its carrying amount is written-down to its residual value. Capital assets, which include computer software, computer hardware, and office equipment, are amortized on a straight-line basis over three years. Amortization expense is reported in the Capital Fund.

Computer projects are amortized on a straight-line basis over three years as the projects are completed.

### (e) Foreign currency transactions and balances:

Assets and liabilities denominated in foreign currency are translated into Canadian dollars at the exchange rate prevailing at the financial statement date. Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date.

### (f) Income recognition:

Investment income has been accrued as reported by the issuer of the pooled funds and bonds. Dividend income from publicly traded securities is recorded as of the ex-dividend date. Interest income has been accrued as earned.

### (g) Unrealized gains (losses):

The net unrealized gains (losses) for the year are reflected in the statement of changes in net assets.

### (h) 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 during the year. Actual results could differ from those estimates.

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2006

## 4. Contributions and other receivables:

	2006	2005
Contributions receivable - employer	\$ 6,211,619	\$ 5,067,026
Contributions receivable - employee	6,211,619	5,067,026
Due from Healthcare Employees Benefits Plan - Manitoba	213,146	551,308
Other receivables	878,499	874,362
	<u>\$ 13,514,883</u>	<u>\$ 11,559,722</u>

## 5. Investments:

	2006	2005
Short-term investments	\$ 30,097,788	\$ 53,835,167
Bonds	766,637,557	754,589,031
Mortgages	344,214,090	328,588,108
Canadian equities	1,192,011,611	1,015,743,888
U.S. equities	389,337,450	321,256,971
Global equities	439,698,927	340,253,325
Real estate	204,320,576	119,578,029
	<u>\$ 3,366,317,999</u>	<u>\$ 2,933,844,519</u>

## 6. Capital assets:

	2006		2005	
	Cost	Accumulated amortization	Net book value	Net book value
Computer software	\$ 1,905,223	\$ 1,650,484	\$ 254,739	\$ 210,380
Computer hardware and office equipment	2,509,106	2,014,032	495,074	188,680
Computer projects	3,081,181	1,027,060	2,054,121	2,768,020
	<u>\$ 7,495,510</u>	<u>\$ 4,691,576</u>	<u>\$ 2,803,934</u>	<u>\$ 3,167,080</u>

In fiscal 2006, \$ 1,069,626 (2005 - \$1,168,478) was transferred from the Pension Fund to the Capital Fund for the acquisition of capital assets.

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2006

## 7. Investment income:

	2006	2005
Short-term investments	\$ 1,642,475	\$ 1,431,356
Bonds	36,968,385	36,850,884
Mortgages	18,854,054	17,151,406
Canadian equities	18,980,852	17,243,826
U.S. equities	4,916,550	1,801,545
Global equities	10,270,396	10,816,458
Real estate	6,716,382	3,227,958
Security lending income	224,945	176,365
	<b>\$ 98,574,039</b>	<b>\$ 88,699,798</b>

## 8. Interest rate and foreign currency risk:

(a) Bonds and mortgages - interest rate risk:

	2006		2005	
	Carrying value	Average coupon rate	Carrying value	Average coupon rate
Federal	\$ 302,344,808	5.639%	\$ 315,796,193	5.117%
Provincial/Municipal	217,426,238	6.030%	208,583,130	6.134%
Corporate	246,866,511	5.362%	230,209,708	5.449%
Mortgages	344,214,090		328,588,108	
	<b>\$1,110,851,647</b>		<b>\$1,083,177,139</b>	

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities. The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets. The Plan holds the above fixed income securities directly and in-directly through pooled funds.

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2006

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## 8. Interest rate and foreign currency risk (continued):

Pension liabilities are exposed to the long-term expectation of rate of return on investments as well as expectations of inflation and salary escalation. The Plan's primary exposure is to a decline in the long-term rate of return which may result in higher contribution rates required to meet pension obligations.

The Plan has invested approximately 34 percent of its investments in fixed income securities as at December 31, 2006. The returns on fixed income securities are particularly sensitive to changes in nominal interest rates.

### (b) Bonds - maturity profile:

	2006	2005
Less than one year	\$ -	\$ 5,671,728
Two to five years	283,836,187	285,488,358
After five years	482,801,370	463,428,945
<b>Total carrying value</b>	<b>\$ 766,637,557</b>	<b>\$ 754,589,031</b>

### (c) Foreign currency risk:

Foreign currency exposure arises from the Plan holding investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments.

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2006

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## 9. Role of the actuary and auditor:

The actuary has been appointed pursuant to the Plan Text and the Trust Agreement. With respect to the preparation of financial statements, the actuary has been engaged to carry out a valuation of the Plan's assets and liabilities, which consists of a provision for future obligations of the Plan to the members. The valuation is made in accordance with accepted actuarial practice, applicable legislation and any direction received from regulatory authorities, and reported thereon to the Board of Trustees. In performing the valuation of the liabilities, which are by their nature inherently variable, assumptions are made as to the investment rate of return, inflation rates and salary escalation in the future, taking into consideration the circumstances of the healthcare employees and the nature of the liabilities. The actuary, in their review of the management information provided by the Plan used in the valuation, also makes use of the work of the external auditors. The Actuary's Report outlines the scope of their work and opinion.

The external auditors have been appointed by the Board of Trustees to conduct an independent and objective audit of the financial statements of the Plan in accordance with generally accepted auditing standards and report thereon to the Board of Trustees. In carrying out their audit, the auditors also make use of the work of the actuary and their report on the Plan's liabilities. The Auditors' Report outlines the scope of their audit and their opinion.

## 10. Related party:

The Plan and the Healthcare Employees Benefit Plan - Manitoba (HEBP) 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.

## 11. Obligations for pension benefits:

As at December 31, 2006, the date of the most recent actuarial valuation, the actuarial present value of the accrued pension benefits was \$3,063,934,000 (2005 - \$2,758,167,000) and the actuarial value of the Plan assets was \$3,074,838,000 (2005 - \$2,753,016,000). The projected unit credit actuarial cost method was used by Towers Perrin, the actuary, to determine the actuarial liability and the required current service contributions.

The assumptions used in determining the actuarial present value of accrued pension benefits are going concern assumptions adopted by the Trustees and were developed by reference to expected long-term market conditions. Three significant long-term actuarial assumptions used in the valuation were:

- (a) the asset rate of return was assumed to be 6.5 percent (2005 - 6.5 percent);

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2006

## 11. Obligations for pension benefits (continued):

(b) inflation rate was assumed to be 3.0 percent (2005 - 3.0 percent); and

(c) the salary escalation rate was assumed to be 3.2 percent for 2007 and 4.0 percent thereafter (2005 - 3.2 percent for 2006 and 2007 and 4.0 percent thereafter) plus merit and promotion.

Since there is no intention of extinguishing the pension obligations in the near term, the obligations are calculated by using the going concern actuarial basis. As underlying conditions change over time, going concern assumptions adopted by the Trustees may also change, which could cause a material change in the actuarial value of accrued pension benefits.

Actuarial value of net assets has been determined using the five year moving average market method. Under this method all experience gains and losses are averaged over a five year period.

The actuarial present value of benefits as at December 31, 2006 and December 31, 2005 and the principal components of changes in actuarial present values during the year were as follows:

	December 31, 2006	December 31, 2005
Market value of net assets	\$ 3,395,311,000	\$ 2,953,259,000
Deferred investment gains	(320,473,000)	(200,243,000)
Actuarial value of net assets	3,074,838,000	2,753,016,000
Actuarial present value of accrued pension benefits - beginning of period	2,758,167,000	2,528,839,000
Benefits accrued	170,208,000	145,275,000
Benefits paid	(111,240,000)	(107,437,000)
Interest accrued on benefits	181,167,000	165,585,000
Increase in benefits accrued due to data corrections	10,793,000	7,349,000
Effect of actual experience, change in reserves for contribution short-fall, change in administrative expenses and change in actuarial basis	54,839,000	18,556,000
Actuarial present value of accrued pension benefits, end of period	3,063,934,000	2,758,167,000
Excess (deficiency) of actuarial value of net assets over actuarial present value of accrued pension benefits	\$ 10,904,000	\$ (5,151,000)

# HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2006

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## **12. Contingency:**

In 2002, the Plan incorrectly calculated the split of pension assets in certain marriage break-ups. The Plan has reviewed all affected calculations and has estimated an outstanding liability to members which is recorded as a liability as of December 31, 2006. The costs associated with any actions to be brought against the Plan regarding these errors are not determinable. Amounts paid by the Plan in the future for legal or actuarial fees related to any future actions will be recorded as incurred.