

Financial Statements of

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

Year ended December 31, 2008



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AUDITORS' REPORT

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

We have audited the statement of net assets of Healthcare Employees Benefits Plan - Manitoba - Dental Plan and Extended Health Plan as at December 31, 2008 and the statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Plans' 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 Plans as at December 31, 2008 and the changes in their net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Signed “**KPMG LLP**”

Chartered Accountants

Winnipeg, Canada

May 20, 2009

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

Statement of Net Assets

December 31, 2008, with comparative figures for 2007

	2008	2007
Assets		
Cash	\$ 379,958	\$ 889,572
Premiums and other receivables	2,276,347	1,699,368
Prepaid expenses	307,786	248,000
Due from Manitoba Blue Cross - Dental Plan (note 4)	3,507,923	3,740,280
Due from Manitoba Blue Cross - Extended Health Plan (note 4)	2,612,777	1,591,767
Capital assets (note 5)	325	10,697
	<u>\$ 9,085,116</u>	<u>\$ 8,179,684</u>
Liabilities and Net Assets		
Premiums payable and accrued liabilities	\$ 2,700,713	\$ 2,600,230
Due to Healthcare Employees Pension Plan - Manitoba (note 9)	6,339	11,230
Obligations for IBNR (note 6):		
Dental Plan	496,009	450,266
Extended Health Plan	1,039,099	1,090,957
	<u>1,535,108</u>	<u>1,541,223</u>
	4,242,160	4,152,683
Net assets represented by:		
Capital fund	325	10,697
Internally restricted fund (note 7)	2,804,582	1,981,245
Unrestricted fund	2,038,049	2,035,059
	<u>4,842,956</u>	<u>4,027,001</u>
	<u>\$ 9,085,116</u>	<u>\$ 8,179,684</u>

See accompanying notes to financial statements.

Approved by the Trustees:

 Chair

 Vice-Chair

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

Statement of Changes in Net Assets

Year ended December 31, 2008, with comparative figures for 2007

	Dental Plan	Extended Health Plan	2008 Total	2007 Total
Increases:				
Premiums	\$ 15,347,290	\$ 15,970,617	\$ 31,317,907	\$ 28,917,116
Investment income	150,214	91,414	241,628	246,573
	15,497,504	16,062,031	31,559,535	29,163,689
Decreases:				
Claims incurred	14,880,288	13,463,509	28,343,797	26,333,270
Interest - Blue Cross	5,457	5,389	10,846	12,285
Amortization of capital assets	5,393	4,979	10,372	10,372
Administrative - HEBP (note 9)	83,628	77,195	160,823	162,009
Administrative - Blue Cross	744,016	807,815	1,551,831	1,444,946
Travel health insurance premiums	—	672,026	672,026	648,967
	15,718,782	15,030,913	30,749,695	28,611,849
Net increase (decrease) prior to change in obligations	(221,278)	1,031,118	809,840	551,840
Change in obligations for IBNR	(45,743)	51,858	6,115	(83,877)
Increase (decrease) in net assets	\$ (267,021)	\$ 1,082,976	\$ 815,955	\$ 467,963

	Unrestricted Fund		Internally Restricted Fund	Capital fund	2008 Total	2007 Total
	Dental Plan	Extended Health Plan				
Net assets, beginning of year	\$ 1,868,733	\$ 166,326	\$ 1,981,245	\$ 10,697	\$ 4,027,001	\$ 3,559,038
Increase (decrease) in net assets	(261,628)	1,087,955	—	(10,372)	815,955	467,963
Transfer for internally restricted (note 7)	(54,295)	(769,042)	823,337	—	—	—
Net assets, end of year	\$ 1,552,810	\$ 485,239	\$ 2,804,582	\$ 325	\$ 4,842,956	\$ 4,027,001

See accompanying notes to financial statements.

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

Notes to Financial Statements

Year ended December 31, 2008

1. General:

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 is not subject to income taxes.

The dental plan and extended health plan are not-for-profit plans. They provide dental coverage and basic and enhanced 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:

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Plans as separate financial reporting entities, 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.

(b) Fund accounting:

Assets, liabilities, revenues and expenses related to the Plans' capital assets are recorded in the Capital Fund. The Internally Restricted Fund represents amounts restricted by the Board of Trustees for claims fluctuation reserves (note 7). All other assets, liabilities, revenues and expenses are reported in the Unrestricted Fund.

(c) 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 Plans' ability to provide services, its carrying amount is written-down to its residual value. Capital assets, which include computer projects, will be amortized on a straight-line basis over three years as the projects are completed. Amortization expense is reported in the Capital Fund.

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

Notes to Financial Statements (continued)

Year ended December 31, 2008

2. Significant accounting policies (continued):

(d) Premiums:

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

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

3. Change in accounting policy:

On January 1, 2008, the Plans adopted two new accounting standards: Handbook Section 3862, *Financial Instruments - Disclosures*, and Handbook Section 3863, *Financial Instruments - Presentation*.

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments - Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The revised and enhanced disclosures with respect to these standards are included in note 8 to the financial statements.

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

Notes to Financial Statements (continued)

Year ended December 31, 2008

4. Due from Manitoba Blue Cross:

	2008	2007
Due from Manitoba Blue Cross - Dental Plan	\$ 3,507,923	\$ 3,740,280
Due from Manitoba Blue Cross - Extended Health Plan	2,612,777	1,591,767
	<u>\$ 6,120,700</u>	<u>\$ 5,332,047</u>

The amounts due from Manitoba Blue Cross are funds held by Manitoba Blue Cross to fund the Plan's obligations for IBNR, which are fully funded, and the claims fluctuation reserves, which are partially funded as disclosed in note 7. 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 3 percent to 3.65 percent (2007 - 2.80 percent to 3.97 percent).

5. Capital assets:

	2008		2007	
	Cost	Accumulated amortization	Net book value	Net book value
Computer projects	\$ 31,115	\$ 30,790	\$ 325	\$ 10,697

In fiscal 2008, nil (2007 - \$976) was transferred from the Unrestricted Fund to the Capital Fund for the computer projects.

6. 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.

7. Internally restricted for claims fluctuation reserves (CFR):

The Board of Trustees has approved the establishment of claims fluctuation reserves. The 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 fully funded.

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

Notes to Financial Statements (continued)

Year ended December 31, 2008

7. Internally restricted for claims fluctuation reserves (CFR) (continued):

The Extended Health Plan consists of the Basic plan, the Retired plan and the Enhanced plan. The reserve for each of these plans has been established at an amount equal to 15 percent of the current year's premiums. The Basic plan has fully funded reserves while the Retired and Enhanced plans are not fully funded. The Board of Trustees has established a funding plan that will fully fund the reserve for the Retired and Enhanced plans within 3 years.

Internally restricted for CFR is allocated as follows:

	2008	2007
Dental Plan	\$ 1,534,730	\$ 1,480,435
Extended Health Plan	1,269,852	500,810
	<u>\$ 2,804,582</u>	<u>\$ 1,981,245</u>

8. Risk management and fair value:

(a) Market risk:

The Plan believes it is not exposed to any market risks including interest rate, currency and other price risk in relation to the Plan's 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 2008 or 2007.

(c) Liquidity risk:

Liquidity risk is the possibility that financial assets of the Plan 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 Plan to fund the Plan's obligations. The Plan's premiums 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)

Year ended December 31, 2008

8. Risk management and fair value (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.

(e) Fair value:

On an annual basis, Manitoba Blue Cross establishes the interest rates to be paid on the amounts due to the Plan (note 4) 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 Plan approximates their carrying value due to their short-term nature.

9. 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.