

Financial Statements of

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

Year ended December 31, 2016



KPMG LLP
Suite 2000 - One Lombard Place
Winnipeg MB R3B 0X3
Canada

Telephone (204) 957-1770
Fax (204) 957-0808
Internet www.kpmg.ca

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 statement of financial position as at December 31, 2016, the statement of changes in net assets available for benefits for the year then ended, 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 audit. We conducted our audit 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 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, 2016, and its changes in net assets available for benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Professional Accountants

June 27, 2017

Winnipeg, Canada

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

Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Cash	\$ 19,658,704	\$ 2,888,284
Premiums receivable	2,226,123	2,119,397
Receivable from Manitoba Blue Cross	570,540	443,004
Prepaid expenses	8,868	9,281
Due from Manitoba Blue Cross (note 3):		
Dental Plan	2,479,701	3,189,696
Extended Health Plan	4,694,294	22,433,383
Total assets	\$ 29,638,230	\$ 31,083,045
Liabilities		
Claims payable and accrued liabilities	\$ 4,876,795	\$ 4,938,500
Government remittances payable	15,655	12,559
Due to Healthcare Employees' Pension Plan - Manitoba (note 10)	125,625	115,473
Obligations for IBNR (note 4):		
Dental Plan	502,867	474,429
Extended Health Plan	2,674,400	2,511,064
	<u>3,177,267</u>	<u>2,985,493</u>
Total liabilities	8,195,342	8,052,025
Commitment (note 11)		
Net assets available for benefits (note 5)	\$ 21,442,888	\$ 23,031,020

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 Available for Benefits

Year ended December 31, 2016, with comparative information for 2015

	Dental Plan	Extended Health Plan	2016 Total	2015 Total
Increases:				
Premiums	\$ 25,885,644	\$ 33,659,798	\$ 59,545,442	\$ 57,182,502
Investment interest income	26,476	108,043	134,519	272,311
	25,912,120	33,767,841	59,679,961	57,454,813
Decreases:				
Claims incurred	24,137,629	30,498,556	54,636,185	51,398,001
Administrative - HEBP (notes 6 and 10)	800,593	1,063,177	1,863,770	1,683,904
Administrative - Blue Cross	1,206,881	1,829,914	3,036,795	2,856,154
Travel health insurance premiums	—	1,539,569	1,539,569	1,277,643
	26,145,103	34,931,216	61,076,319	57,215,702
Increase (decrease) in net assets prior to change in obligations for IBNR	(232,983)	(1,163,375)	(1,396,358)	239,111
Change in obligations for IBNR	(28,438)	(163,336)	(191,774)	(214,967)
Increase (decrease) in net assets available for benefits	(261,421)	(1,326,711)	(1,588,132)	24,144
Net assets available for benefits, beginning of year	2,912,903	20,118,117	23,031,020	23,006,876
Net assets available for benefits, end of year	\$ 2,651,482	\$ 18,791,406	\$ 21,442,888	\$ 23,031,020

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, 2016

1. General and description of the Plans:

The Healthcare Employees' Benefits Plan - Manitoba (HEBP) is a jointly trusteeed, 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 follow the Canadian accounting standards for pension plans for accounting policies related to its obligations. In selecting or changing accounting policies that do not relate to its obligations, the Plans comply on a consistent basis with Canadian accounting standards for private enterprises.

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.

(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.

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

Notes to Financial Statements (continued)

Year ended December 31, 2016

2. Significant accounting policies (continued):

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.

3. Due from Manitoba Blue Cross:

The amounts due from Manitoba Blue Cross are funds held by Manitoba Blue Cross representing accumulated annual experience gains (losses) in the Dental Plan and Extended Health Plan. During the year, Manitoba Blue Cross refunded the Plans' \$17 million in funds previously held by Manitoba Blue Cross for the Plans' obligations for IBNR and claims fluctuation reserves and a portion of accumulated experience gains (losses) in the Plans. The funds are now invested by the Plans to fund the obligations for IBNR and claims fluctuation reserves (note 5).

Interest was earned on the amounts due from Manitoba Blue Cross ranging from 0.46 percent to 0.55 percent (2015 - 0.90 percent to 0.99 percent).

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

Notes to Financial Statements (continued)

Year ended December 31, 2016

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.

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 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 and Retired Plan have fully funded reserves.

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

	2016	2015
Dental Plan	\$ 2,588,564	\$ 2,452,680
Extended Health Plan	4,818,035	4,706,699
	\$ 7,406,599	\$ 7,159,379

6. Administrative expenses:

	Dental Plan	Extended Health Plan	2016 Total	2015 Total
Salaries and benefits	\$ 627,235	\$ 803,421	\$ 1,430,656	\$ 1,383,350
Other administrative expenses	163,173	246,711	409,884	273,322
Trustee and custodial fees	3,794	4,859	8,653	12,500
Audit fees	3,366	4,312	7,678	6,461
Legal fees	3,025	3,874	6,899	8,271
	\$ 800,593	\$ 1,063,177	\$ 1,863,770	\$ 1,683,904

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

Notes to Financial Statements (continued)

Year ended December 31, 2016

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 2016 or 2015.

(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.

(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.

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

Notes to Financial Statements (continued)

Year ended December 31, 2016

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' allocation of annual lease payments under various operating leases with varying expiry dates up to December 31, 2020 is as follows:

2017	\$	95,000
2018		96,000
2019		95,000
2020		95,000
	\$	381,000
