

Financial Statements of

**HEALTHCARE EMPLOYEES
PENSION PLAN - MANITOBA**

Year ended December 31, 2002



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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, 2002 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, 2002 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

June 3, 2003



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HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Statement of Net Assets

December 31, 2002, with comparative figures for 2001

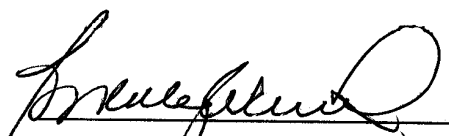
	2002	2001
Assets		
Cash	\$ 28,499,139	\$ 16,365,535
Contributions and other receivables (note 5)	4,541,571	5,514,274
Due from broker	486,282	-
Investment income receivable	6,775,306	7,103,404
Investments (note 6)	1,978,021,137	2,056,582,388
Invested in capital assets (note 7)	548,853	487,631
	<u>\$ 2,018,872,288</u>	<u>\$ 2,086,053,232</u>

Liabilities and Net Assets

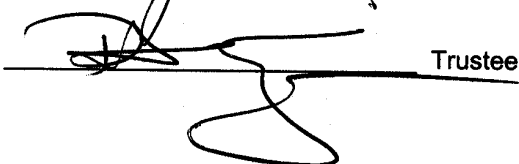
Accrued benefit payments and liabilities	\$ 8,357,762	\$ 6,618,383
Due to brokers	-	11,917
	<u>8,357,762</u>	<u>6,630,300</u>
Net assets represented by:		
Pension Fund	2,009,936,123	2,078,739,310
Restricted for future capital assets	29,550	195,991
Capital Fund	548,853	487,631
	<u>2,010,514,526</u>	<u>2,079,422,932</u>
	<u>\$ 2,018,872,288</u>	<u>\$ 2,086,053,232</u>

See accompanying notes to financial statements.

Approved on behalf of the Trustees:



Trustee



Trustee

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Statement of Changes in Net Assets

Year ended December 31, 2002, with comparative figures for 2001

	Pension Fund	Capital Fund	2002	2001
Increase in net assets:				
Pension fund contributions:				
Employer	\$ 48,274,603	\$ -	\$ 48,274,603	\$ 43,921,967
Employee	48,274,603	-	48,274,603	43,921,967
Reciprocal transfers and buybacks:				
Employer	916,663	-	916,663	594,786
Employee	916,663	-	916,663	594,786
Investment income (note 8)	72,942,372	-	72,942,372	77,997,138
Total increase in net assets	171,324,904	-	171,324,904	167,030,644
Decrease in net assets:				
Current period change in				
market values of investments	153,174,811	-	153,174,811	37,898,855
Pension payments	63,230,628	-	63,230,628	56,852,319
Termination refunds	14,571,730	-	14,571,730	18,163,713
Investment management fees	5,961,966	-	5,961,966	5,404,035
Administrative expenses	2,120,957	-	2,120,957	1,999,966
Amortization of capital assets	-	290,719	290,719	213,130
Professional fees	39,289	-	39,289	62,902
Custodial fees	641,734	-	641,734	902,515
Actuarial fees	201,476	-	201,476	149,543
Total decrease in net assets	239,942,591	290,719	240,233,310	121,646,978
Net increase (decrease) in assets				
prior to inter-fund transfers	(68,617,687)	(290,719)	(68,908,406)	45,383,666
Inter-fund transfers (note 7)	(351,941)	351,941	-	-
Net increase (decrease) in assets	(68,969,628)	61,222	(68,908,406)	45,383,666
Net assets, beginning of year	2,078,935,301	487,631	2,079,422,932	2,034,039,266
Net assets, end of year	\$ 2,009,965,673	\$ 548,853	\$ 2,010,514,526	\$ 2,079,422,932
Invested in capital assets	\$ -	\$ 548,853	\$ 548,853	\$ 487,631
Restricted for future capital assets	29,550	-	29,550	195,991
Net pension fund assets	2,009,936,123	-	2,009,936,123	2,078,739,310
Net assets, end of year	\$ 2,009,965,673	\$ 548,853	\$ 2,010,514,526	\$ 2,079,422,932

See accompanying notes to financial statements.

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements

Year ended December 31, 2002

1. General:

The Plan is governed by a Board of Trustees appointed by signatory employers and unions. The Trustees have applied to Canada Customs and Revenue Agency ("CCRA") for registration and approval and the Manitoba Pension Commission has registered the Plan as a Multi-unit Pension Plan.

Effective January 1, 2002, the Plan received approval from the CCRA for designation as a Specified Multi-Employer Plan. The changes associated with this status were implemented effective January 1, 2002.

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.

Effective April 1, 1998 employers and employees are required to contribute to the Plan 5% of the members' earnings up to the legislated Year's Maximum Pensionable Earnings ("YMPE") plus 6.6% of the members' earnings in excess of the YMPE.

(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.

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2002

2. Description of the plan (continued):

(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.

(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.

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2002

2. Description of the plan (continued):

(h) Income taxes:

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

3. Related party:

The Healthcare Employees Benefits Plan - Manitoba ("HEBP"), a jointly trustee benefits plan for healthcare employees, is administrated by the Pension Plan's senior management and its Board is comprised of certain common trustees between the two plans. Certain costs are allocated to HEBP based on factors such as square footage, number of employees, time, usage, etc.

4. 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:

(i) Short-term investments:

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

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2002

4. Significant accounting policies (continued):

(ii) Bonds and bond pooled funds:

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 valued by the respective fund trustee.

(iii) Mortgage pooled funds:

Mortgage pooled funds are recorded at market values established by the fund sponsor.

(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.

(v) Real estate pooled funds:

Real estate pooled funds are valued by the fund sponsor. Real estate properties are appraised annually by qualified external real estate appraisers.

(d) Invested in 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.

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2002

4. Significant accounting policies (continued):

(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. 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 in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the year. Actual results could differ from those estimates.

5. Contributions and other receivables:

	2002	2001
Contributions receivable - employer	\$ 2,096,924	\$ 2,364,946
Contributions receivable - employee	2,096,924	2,364,946
Other receivables	347,723	784,382
	<u>\$ 4,541,571</u>	<u>\$ 5,514,274</u>

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2002

6. Investments:

	2002	2001
Short-term investments	\$ 33,932,492	\$ 26,674,446
Bonds	348,542,843	351,216,614
Bond pooled funds	293,129,086	343,718,430
Mortgage pooled funds	168,586,352	95,048,680
Canadian equities	618,513,287	757,876,044
U.S. equities	218,508,805	208,783,794
Global equities	244,440,452	221,440,778
Real estate pooled funds	52,367,820	51,823,602
	\$ 1,978,021,137	\$ 2,056,582,388

7. Invested in capital assets:

	2002		2001	
	Cost	Accumulated amortization	Net book value	Net book value
Computer software	\$ 1,580,730	\$ 1,237,677	\$ 343,053	\$ 362,317
Computer hardware and office equipment	1,184,706	978,906	205,800	125,314
	\$ 2,765,436	\$ 2,216,583	\$ 548,853	\$ 487,631

In fiscal 2002, \$351,941 (2001 - \$449,574) was transferred from the Pension Fund to the Capital Fund for the acquisition of capital assets. A restricted fund of \$29,550 (2001 - \$195,991) has been set up in the Pension Fund for the acquisition of future capital assets.

8. Investment income:

	2002	2001
Short-term investments	\$ 824,492	\$ 1,607,646
Bonds	22,192,215	22,462,730
Bond pooled funds	19,168,402	23,835,653
Mortgage pooled funds	8,740,629	6,202,412
Canadian equities	15,185,962	17,527,716
U.S. equities	2,137,888	2,400,804
Global equities	4,446,076	3,358,090
Real estate pooled funds	108,109	449,504
Security lending income	138,599	152,583
	\$ 72,942,372	\$ 77,997,138

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2002

9. Interest rate and foreign currency risk:

(a) Bonds - interest rate risk:

	2002		2001	
	Carrying value	Average coupon rate	Carrying value	Average coupon rate
Federal	\$ 137,619,467	6.717%	\$ 117,524,485	7.181%
Provincial/Municipal	98,854,195	6.229%	93,974,650	6.605%
Corporate	106,616,616	6.361%	120,762,515	6.443%
Global	5,452,565	2.750%	18,954,964	6.094%
	\$ 348,542,843		\$ 351,216,614	

(b) Bonds - maturity profile:

	2002	2001
Less than one year	\$ -	\$ 15,680,528
Two to five years	127,520,331	137,882,422
After five years	221,022,512	197,653,664
Total carrying value	\$ 348,542,843	\$ 351,216,614

(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.

10. Role of the actuary and auditor:

The actuary has been appointed pursuant to the Plan Text and the Trust Agreement. With respect to preparation of financial statements, the actuary is required 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 as well as any other matter specified in any direction that may be made by regulatory authorities, and reported thereon to the members. 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 increments in the future, taking into consideration the circumstances of the healthcare employees and the nature of the liabilities. The actuary, in his verification 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 his work and opinion.

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2002

10. Role of the actuary and auditor (continued):

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 members. In carrying out their audit, the auditors also make use of the work of the actuary and his report on the Plan's liabilities. The auditors' report outlines the scope of their audit and their opinion.

11. Obligations for pension benefits:

As at December 31, 2002, the date of the most recent actuarial valuation, the actuarial present value of the accrued pension benefits was \$2,143,506,000 (January 1, 2002 - \$2,028,539,000) and the actuarial value of the plan assets was \$2,210,930,000 (January 1, 2002 - \$2,115,124,000). The 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 management's best estimate and were developed by reference to expected long-term market conditions. Two significant long-term actuarial assumptions used in the valuation were:

- (a) the salary escalation rate was assumed to be 6.5% for the current year, 6.1% for 2004, 5.0% for 2005 and 4.0% thereafter (2002 - 9% for current year and 4% thereafter) plus merit and promotion; and
- (b) the asset rate of return was assumed to be 6.5% (2002 - 6.5%) over the long-term.

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, management's best estimate assumptions 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.

HEALTHCARE EMPLOYEES PENSION PLAN - MANITOBA

Notes to Financial Statements (continued)

Year ended December 31, 2002

11. Obligations for pension benefits (continued):

The actuarial present value of benefits as at December 31, 2002 and January 1, 2002 and the principal components of changes in actuarial present values during the year were as follows:

	December 31, 2002	January 1, 2002
Market value of net assets	\$ 2,009,936,000	\$ 2,078,739,000
Deferred investment losses	200,994,000	36,385,000
Actuarial value of net assets	2,210,930,000	2,115,124,000
Actuarial present value of accrued pension benefits - beginning of period	2,028,539,000	1,770,934,000
Benefits accrued	106,165,000	100,173,000
Benefits paid	(71,184,000)	(75,016,000)
Interest accrued on benefits	132,974,000	115,915,000
Increase (decrease) in reserves for ad-hoc pension adjustments	(133,000,000)	16,294,000
Increase due to data corrections	26,100,000	13,869,000
Effect of actual experience, change in reserves and change in actuarial basis	53,912,000	86,370,000
Actuarial present value of accrued pension benefits - end of period	2,143,506,000	2,028,539,000
Excess of actuarial value of net assets over actuarial present value of accrued pension benefits	\$ 67,424,000	\$ 86,585,000

12. Statement of cash flows:

A separate statement of cash flows is not presented since the cash flows are readily apparent from the statement of net assets and statement of changes in net assets.