

Financial Statements of

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

Year ended December 31, 2004



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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 financial position of Healthcare Employees Benefits Plan - Manitoba - Dental Plan and Extended Health Plan as at December 31, 2004 and the statement of changes in fund balances 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 financial position of the Plans as at December 31, 2004 and the changes in their fund balances and their cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Winnipeg, Canada

May 20, 2005

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


Statement of Financial Position


December 31, 2004, with comparative figures for 2003

	2004	2003 (Restated, note 3)
Assets		
Cash and short-term deposits	\$ 206,004	\$ 418,345
Premiums and other receivables	1,344,163	1,135,442
Prepaid expenses	3,896	3,848
Due from Manitoba Blue Cross - Dental Plan	900,977	130,537
Due from Manitoba Blue Cross - Extended Health Plan	1,869,478	1,286,431
Capital assets (note 4)	21,309	7,162
	<u>\$ 4,345,827</u>	<u>\$ 2,981,765</u>
Liabilities and Fund Balances		
Premiums payable and accrued liabilities	\$ 1,375,124	\$ 1,377,576
Due to Healthcare Employees Pension Plan - Manitoba (note 9)	38,174	17,652
Reserves for IBNR (note 6):		
Dental Plan	384,332	489,951
Extended Health Plan	1,596,433	1,889,023
	<u>1,980,765</u>	<u>2,378,974</u>
	3,394,063	3,774,202
Fund balances:		
Capital fund	21,309	7,162
Unrestricted fund (note 5)	930,455	(799,599)
	<u>951,764</u>	<u>(792,437)</u>
	<u>\$ 4,345,827</u>	<u>\$ 2,981,765</u>

See accompanying notes to financial statements.

On behalf of the Board of Trustees:

 _____ Trustee

 _____ Trustee

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

Statement of Changes in Fund Balances

Year ended December 31, 2004, with comparative figures for 2003

	Dental Plan	Extended Health Plan	2004 Total	2003 Total (Restated, note 3)
Increases:				
Premiums	\$ 13,005,366	\$ 11,450,076	\$ 24,455,442	\$ 22,319,933
Investment income	27,337	115,025	142,362	138,649
	13,032,703	11,565,101	24,597,804	22,458,582
Decreases:				
Claims incurred	11,529,950	9,562,401	21,092,351	20,066,869
Interest - Blue Cross	12,651	76,519	89,170	99,945
Administrative - HEBP (note 9)	118,178	100,670	218,848	123,324
Administrative - Blue Cross	605,322	717,178	1,322,500	1,260,042
Travel health insurance premiums	—	528,943	528,943	521,269
	12,266,101	10,985,711	23,251,812	22,071,449
Net increase prior to appropriations from reserves	766,602	579,390	1,345,992	387,133
Appropriations from reserves for IBNR	105,619	292,590	398,209	15,567
Net increase after appropriations from reserves	872,221	871,980	1,744,201	402,700
Fund balances, beginning of year:				
As previously stated	(794,677)	(462,949)	(1,257,626)	(1,195,137)
Prior period adjustment (note 3)	465,189	—	465,189	—
Adjusted	(329,488)	(462,949)	(792,437)	(1,195,137)
Fund balances, end of year	\$ 542,733	\$ 409,031	\$ 951,764	\$ (792,437)
Capital fund			\$ 21,309	\$ 7,162
Unrestricted fund			930,455	(799,599)
Fund balances, end of year			\$ 951,764	\$ (792,437)

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, 2004

1. General:

The Healthcare Employees Benefits Plan - Manitoba (HEBP) is a jointly trusteesd, 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*.

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. 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 in progress, will be amortized on a straight-line basis over three years as the projects are completed. Amortization expense will be 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, 2004

2. Significant accounting policies (continued):

(d) Measurement uncertainty:

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 and reserves at the date of the financial statements and the reported amounts of increases and decreases in fund balances, and appropriations from (to) reserves during the year. Actual results could differ from those estimates.

3. Correction of an error:

For 2003, the premiums collected for the dental plan have been restated due to an error in the reporting process from Manitoba Blue Cross, the claims administrator. The premiums for 2003, along with related interest income and expense, have been restated for the year ended December 31, 2003.

The correction resulted in the following changes to the previously reported amounts for December 31, 2003:

	As previously reported	Error correction	As restated
Premiums	\$ 21,858,208	\$ 461,725	\$ 22,319,933
Investment income	88,428	50,221	138,649
Interest - Blue Cross	(53,188)	(46,757)	(99,945)
Net increase (decrease) after appropriations from reserves	(62,489)	465,189	402,700
Fund balances	(1,257,626)	465,189	(792,437)
Due from (to) Manitoba Blue Cross	(334,652)	465,189	130,537

4. Capital assets:

	2004		2003	
	Cost	Accumulated amortization	Net book value	Net book value
Computer projects in progress	\$ 21,309	\$ -	\$ 21,309	\$ 7,162

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

Notes to Financial Statements (continued)

Year ended December 31, 2004

4. Capital assets (continued):

In fiscal 2004, \$14,147 (2003 - \$7,162) was transferred from the Unrestricted Fund to the Capital Fund for the computer projects in progress.

5. Unrestricted fund:

The unrestricted fund balance represents the excess of claims and expenses over premiums and investment income since inception of the Plans. Under the BASO arrangement, the Plans are self-insured.

6. Reserves:

(a) Incurred but not reported (IBNR):

These reserves are maintained to pay those claims which have been incurred but not reported at the date of the financial statements. These reserves are based on the average of the last two year's paid claims.

(b) Measurement uncertainty:

These reserves represent estimates for the full amount of all claims costs and the projected final settlements of claims incurred to the year end date. These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. All changes in estimates are recorded as changes to the provisions in the current year.

7. Assets earning investment income:

	2004	2003 (Restated, note 3)
Cash and short-term deposits	\$ 206,004	\$ 418,345
Due from Manitoba Blue Cross - Dental Plan	900,977	130,537
Due from Manitoba Blue Cross - Extended Health Plan	1,869,478	1,286,431
	<u>\$ 2,976,459</u>	<u>\$ 1,835,313</u>

Interest was earned on Manitoba Blue Cross cash flows at 1.5 percent (2003 - 1.5 percent) and on reserves and surplus at 4.79 percent (2003 - 4.79 percent).

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

Notes to Financial Statements (continued)

Year ended December 31, 2004

8. Underlying risks:

Claims and premiums risk:

The nature of the unpaid claims is such that the establishment of reserves 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 reserves 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. Related party transactions:

HEBP and the Healthcare Employee's 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.

10. Fair value:

The carrying amount of certain financial assets and liabilities is a reasonable estimate of the fair values because of the short maturity of those instruments. Those short-term financial assets are comprised of cash and short-term deposits and premiums receivable. Short-term financial liabilities are comprised of premiums payable and accrued liabilities and due to Healthcare Employees Pension Plan - Manitoba.

Other financial assets and liabilities are comprised of due from Manitoba Blue Cross and the reserves for IBNR. Since there is no intention of extinguishing the obligations for benefit payments in the near term, the fair value is best approximated by using the same assumptions as for the establishment of these assets and reserves. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the fair values of these accrued benefits and related funding receivables.

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

Notes to Financial Statements (continued)

Year ended December 31, 2004

11. Statement of cash flows:

A separate statement of cash flows is not presented since the cash flows are readily apparent from the statement of financial position and statement of changes in fund balances.

12. Comparative figures:

Certain 2003 figures have been reclassified to conform with the financial statement presentation adopted in the current year.