

Financial Statements of

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

And Independent Auditors' Report thereon

Year ended December 31, 2019



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

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

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of Healthcare Employees' Benefits Plan - Manitoba - Dental Plan and Extended Health Plan (the "Plan"), which comprise the statement of financial position as at December 31, 2019, the statement of changes in net assets available for benefits for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2019, and its changes in net assets available for benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Plan's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Plan or to cease operations, or has no realistic alternative but to do so.



Those charged with governance are responsible for overseeing the Plan's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Plan to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.



- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Winnipeg, Canada

June 12, 2020

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


Statement of Financial Position

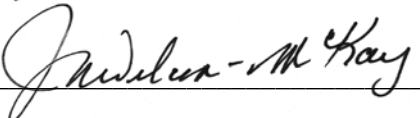
December 31, 2019, with comparative information for 2018

	2019	2018
Assets		
Cash	\$ 3,647,585	\$ 18,602,445
Premiums receivable	4,422,531	4,266,270
Receivable from Manitoba Blue Cross	792,359	762,871
Prepaid expenses	–	8,282
Due from (to) Manitoba Blue Cross (note 3):		
Dental Plan	4,931,101	3,473,589
Extended Health Plan	(1,961,419)	(32,914)
Investment - short-term pooled fund	15,176,022	–
Total assets	\$ 27,008,179	\$ 27,080,543
Liabilities		
Claims payable and accrued liabilities	\$ 5,307,262	\$ 5,233,716
Government remittances payable	–	15,515
Due to Healthcare Employees' Pension Plan - Manitoba (note 10)	178,081	259,671
Obligations for IBNR (note 4):		
Dental Plan	560,418	534,181
Extended Health Plan	1,727,849	1,672,977
	2,288,267	2,207,158
Total liabilities	7,773,610	7,716,060
Commitment (note 11)		
Subsequent event (note 12)		
Net assets available for benefits (note 5)	\$ 19,234,569	\$ 19,364,483

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, 2019, with comparative information for 2018

	Dental Plan	Extended Health Plan	2019 Total	2018 Total
Increases:				
Premiums	\$ 30,744,724	\$ 36,935,436	\$ 67,680,160	\$ 64,189,575
Investment income	59,300	440,921	500,221	404,500
	<u>30,804,024</u>	<u>37,376,357</u>	<u>68,180,381</u>	<u>64,594,075</u>
Decreases:				
Claims incurred	26,900,046	33,670,211	60,570,257	58,318,696
Administrative - Blue Cross	1,345,002	2,020,213	3,365,215	3,242,715
Administrative - HEBP (notes 6 and 10)	1,037,679	1,361,485	2,399,164	2,208,048
Travel health insurance premiums	–	1,873,916	1,873,916	1,825,052
Change in fair value of investment	–	20,634	20,634	–
	<u>29,282,727</u>	<u>38,946,459</u>	<u>68,229,186</u>	<u>65,594,511</u>
Increase (decrease) in net assets prior to change in obligations for IBNR	1,521,297	(1,570,102)	(48,805)	(1,000,436)
Change in obligations for IBNR	(26,237)	(54,872)	(81,109)	1,084,063
Increase (decrease) in net assets available for benefits	1,495,060	(1,624,974)	(129,914)	83,627
Net assets available for benefits, beginning of year	3,758,388	15,606,095	19,364,483	19,280,856
Net assets available for benefits, end of year	\$ 5,253,448	\$ 13,981,121	\$ 19,234,569	\$ 19,364,483

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, 2019

1. General and description of the Plans:

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 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 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. 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.

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

Notes to Financial Statements (continued)

Year ended December 31, 2019

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) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. The Plan uses closing market price for fair value measurement.

When available, the Plan measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Plan establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

All changes in fair value, other than interest and dividend income, are recognized in the statement of changes in net assets available for benefits as part of the current period change in fair value of investments.

Short-term investment pooled fund is recorded at fair values established by the respective fund trustee.

(d) 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.

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

Notes to Financial Statements (continued)

Year ended December 31, 2019

2. Significant accounting policies (continued):

(e) 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.

(f) 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 2016, 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 0.55 percent to 1.85 percent (2018 - 0.55 percent to 1.68 percent).

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.

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

Notes to Financial Statements (continued)

Year ended December 31, 2019

5. Net assets available for benefits (continued):

The Extended Health Plan consists of the Active and Retired plans. The target reserve for each of these plans was established at an amount equal to 15 percent of the current year's premiums. Effective June 1, 2018, the Board of Trustees approved the reduction of the reserve for the Active plan of the Extended Health Plan to an amount equal to 7.5 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:

	2019	2018
Dental Plan	\$ 3,074,472	\$ 2,901,296
Extended Health Plan	3,133,717	2,986,523
	\$ 6,208,189	\$ 5,887,819

6. Administrative expenses:

	Dental Plan	Extended Health Plan	2019 Total	2018 Total
Salaries and benefits	\$ 806,776	\$ 966,807	\$ 1,773,583	\$ 1,649,169
Other administrative expenses	211,803	295,815	507,618	449,983
Legal and actuarial fees	14,952	93,840	108,792	90,045
Trustee and custodial fees	1,204	1,458	2,662	12,147
Audit fees	2,944	3,565	6,509	6,704
	\$ 1,037,679	\$ 1,361,485	\$ 2,399,164	\$ 2,208,048

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.

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

Notes to Financial Statements (continued)

Year ended December 31, 2019

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:

The Plans are exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due or requested. The Plans' greatest concentration of credit risk is in their fixed income securities. The fair value of the fixed income securities includes consideration of the creditworthiness of the debt issuer. All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal, as payment is made on purchase once the securities have been received from the broker. For sales transactions, the securities are released once the broker has made payment.

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 2019 or 2018.

(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. All of the Plans' investments are in liquid securities traded in public markets. 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.

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

Notes to Financial Statements (continued)

Year ended December 31, 2019

8. Risk management (continued):

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.

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 (except cash and investments which are stated at fair value).

The Plans assets which are recorded at fair value are required to be classified into one of three levels, depending on the inputs used for valuation. The hierarchy of inputs is summarized below:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3	Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

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

Notes to Financial Statements (continued)

Year ended December 31, 2019

9. Fair value of financial instruments (continued):

The following is a summary of the classification used as of December 31, 2019 in valuing the Plans' cash and investments carried at fair value:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Cash	\$ 3,647,585	\$ –	\$ –	\$ 3,647,585
Short-term investment pooled fund	–	15,176,022	–	15,176,022
	\$ 3,647,585	\$ 15,176,022	\$ –	\$ 18,823,607

The following is a summary of the inputs used as of December 31, 2018 in valuing the Plans' cash and investments:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Cash	\$ 18,602,445	\$ –	\$ –	\$ 18,602,445
	\$ 18,602,445	\$ –	\$ –	\$ 18,602,445

For the years ended December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2.

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.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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

Notes to Financial Statements (continued)

Year ended December 31, 2019

11. Commitment:

The Plans' allocation of annual lease payments under an operating lease with an expiry date of October 31, 2028 is as follows:

2020	\$	121,000
2021		119,000
2022		111,000
2023		111,000
2024		112,000
Thereafter		428,000
		<hr/>
	\$	1,002,000

12. Subsequent event:

Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Plans is not known at this time. These impacts could include decline in fair value of investments or decreases in investment income.