

Financial Statements of

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

Year ended December 31, 2010



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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 net assets as at December 31, 2010, the statement of changes in net assets 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 generally accepted accounting principles, 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 net assets of Healthcare Employees Benefits Plan - Manitoba - Dental Plan and Extended Health Plan as at December 31, 2010, and its changes in net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

June 17, 2011

Winnipeg, Canada

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

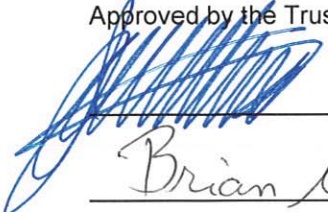
Statement of Net Assets

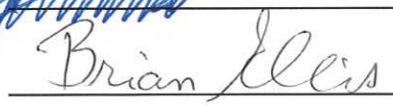
December 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Cash	\$ 445,264	\$ 409,509
Premiums and other receivables	3,583,982	3,179,495
Prepaid expenses	6,135	321,180
Due from Manitoba Blue Cross - Dental Plan (note 3)	1,642,148	2,698,592
Due from Manitoba Blue Cross - Healthcare Plan (note 3)	11,159,995	6,608,260
	<u>\$ 16,837,524</u>	<u>\$ 13,217,036</u>
Liabilities and Net Assets		
Premiums payable and accrued liabilities	\$ 3,688,626	\$ 3,633,401
Due to Healthcare Employees Pension Plan - Manitoba (note 7)	75,757	13,052
Obligations for IBNR (note 4):		
Dental Plan	602,479	555,795
Healthcare Plan	1,575,832	2,041,872
	<u>2,178,311</u>	<u>2,597,667</u>
	<u>5,942,694</u>	<u>6,244,120</u>
Net assets represented by:		
Internally restricted fund (note 5)	5,131,184	4,947,186
Unrestricted fund	5,763,646	2,025,730
	<u>10,894,830</u>	<u>6,972,916</u>
Commitment (note 8)		
	<u>\$ 16,837,524</u>	<u>\$ 13,217,036</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, 2010, with comparative figures for 2009

	Dental Plan	Healthcare Plan	2010 Total	2009 Total
Increases:				
Premiums	\$ 18,398,628	\$ 27,857,126	\$ 46,255,754	\$ 40,931,456
Investment income	41,570	108,470	150,040	104,264
	18,440,198	27,965,596	46,405,794	41,035,720
Decreases:				
Claims incurred	18,074,376	20,509,726	38,584,102	34,175,572
Interest - Blue Cross	2,057	—	2,057	7,702
Amortization of capital assets	—	—	—	325
Administrative - HEBP (note 7)	504,758	670,025	1,174,783	881,104
Administrative - Blue Cross	903,719	1,230,583	2,134,302	1,884,162
Travel health insurance premiums	—	1,007,992	1,007,992	894,336
	19,484,910	23,418,326	42,903,236	37,843,201
Net increase (decrease) prior to change in obligations	(1,044,712)	4,547,270	3,502,558	3,192,519
Change in obligations for IBNR	(46,684)	466,040	419,356	(1,062,559)
Increase (decrease) in net assets	\$ (1,091,396)	\$ 5,013,310	\$ 3,921,914	\$ 2,129,960

	Unrestricted Fund			2010 Total	2009 Total
	Dental Plan	Healthcare Plan	Internally Restricted fund		
Net assets, beginning of year	\$ 569,716	\$ 1,456,014	\$ 4,947,186	\$ 6,972,916	\$ 4,842,956
Increase (decrease) in net assets	(1,091,396)	5,013,310	—	3,921,914	2,129,960
Transfer for internally restricted (note 5)	604,033	(788,031)	183,998	—	—
Net assets, end of year	\$ 82,353	\$ 5,681,293	\$ 5,131,184	\$ 10,894,830	\$ 6,972,916

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, 2010

1. General:

The Healthcare Employees Benefits Plan - Manitoba (HEBP) is a jointly trustee, not-for-profit organization which includes the dental plan and healthcare 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 healthcare 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:

The Internally Restricted Fund represents amounts restricted by the Board of Trustees for claims fluctuation reserves (note 5). All other assets, liabilities, revenues and expenses are reported in the Unrestricted Fund.

(c) 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.

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

Notes to Financial Statements (continued)

Year ended December 31, 2010

2. Significant accounting policies (continued):

(d) 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. Due from Manitoba Blue Cross:

	2010	2009
Due from Manitoba Blue Cross - Dental Plan	\$ 1,642,148	\$ 2,698,592
Due from Manitoba Blue Cross - Healthcare Plan	11,159,995	6,608,260
	<u>\$ 12,802,143</u>	<u>\$ 9,306,852</u>

The amounts due from Manitoba Blue Cross are funds held by Manitoba Blue Cross to fund the Plans' obligations for IBNR, which are fully funded, and the claims fluctuation reserves, which are partially funded as disclosed in note 5. In addition, the amounts due from Manitoba Blue Cross include accumulated annual experience gains (losses) in the Dental Plan and Healthcare Plan.

Interest was earned on the amounts due from Manitoba Blue Cross ranging from 0.40 percent to 1.43 percent (2009 - 1.17 percent to 1.20 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.

For the year ended December 31, 2010, Manitoba Blue Cross amended its calculation used to estimate the obligations for IBNR. As a result of this change, the obligation for IBNR decreased by \$696,980 as at December 31, 2010.

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

Notes to Financial Statements (continued)

Year ended December 31, 2010

5. Internally restricted fund for claims fluctuation reserves (CFR):

The Board of Trustees has approved the establishment of claims fluctuation reserves. 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 not fully funded.

The Healthcare 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 has fully funded reserves while the Retired plans are not fully funded.

Internally restricted fund for CFR is allocated as follows:

	2010	2009
Dental Plan	\$ 1,103,814	\$ 1,707,847
Healthcare Plan	4,027,370	3,239,339
	<u>\$ 5,131,184</u>	<u>\$ 4,947,186</u>

6. Risk management and fair value:

(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 2010 or 2009.

(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 Plan to fund the Plan's obligations. The Plans' 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, 2010

6. 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 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.

7. 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.

8. Commitment:

The Plan leases office space under various operating leases with varying expiry dates up to December 31, 2015. The Plan's allocation of annual lease payments to expiry is as follows:

2011	\$	64,000
2012		64,000
2013		65,000
2014		65,000
2015		65,000
	\$	323,000
