

Financial Statements of

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

Year ended December 31, 2007



KPMG LLP
Chartered Accountants
Suite 2000 – One Lombard Place
Winnipeg MB R3B 0X3
Canada

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

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 net assets of Healthcare Employees Benefits Plan - Manitoba - Dental Plan and Extended Health Plan as at December 31, 2007 and the statement of changes in net assets 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 net assets of the Plans as at December 31, 2007 and the changes in their net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

Signed "**KPMG LLP**"

Chartered Accountants

Winnipeg, Canada

April 4, 2008

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

Statement of Net Assets

December 31, 2007, with comparative figures for 2006

	2007	2006
Assets		
Cash	\$ 889,572	\$ 684,138
Premiums and other receivables	1,699,368	1,899,644
Prepaid expenses	248,000	205,912
Due from Manitoba Blue Cross - Dental Plan (note 4)	3,740,280	3,074,347
Due from Manitoba Blue Cross - Extended Health Plan (note 4)	1,591,767	1,727,580
Capital assets (note 5)	10,697	20,093
	\$ 8,179,684	\$ 7,611,714

Liabilities and Net Assets

Premiums payable and accrued liabilities	\$ 2,600,230	\$ 2,575,709
Due to Healthcare Employees Pension Plan - Manitoba (note 9)	11,230	19,621
Obligations for IBNR (note 6):		
Dental Plan	450,266	420,454
Extended Health Plan	1,090,957	1,036,892
	1,541,223	1,457,346
	4,152,683	4,052,676
Net assets represented by:		
Capital fund	10,697	20,093
Internally restricted fund (note 7)	1,981,245	2,133,255
Unrestricted fund	2,035,059	1,405,690
	4,027,001	3,559,038
	\$ 8,179,684	\$ 7,611,714

See accompanying notes to financial statements.

On behalf of the Board of 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, 2007, with comparative figures for 2006

	Dental Plan	Extended Health Plan	2007 Total	2006 Total
Increases:				
Premiums	\$ 14,804,336	\$ 14,112,780	\$ 28,917,116	\$ 27,734,015
Investment income	149,819	96,754	246,573	237,650
	14,954,155	14,209,534	29,163,689	27,971,665
Decreases:				
Claims incurred	13,507,754	12,825,516	26,333,270	24,754,963
Interest - Blue Cross	—	12,285	12,285	44,331
Amortization of capital assets	5,705	4,667	10,372	10,047
Administrative - HEBP (note 9)	89,105	72,904	162,009	146,991
Administrative - Blue Cross	675,389	769,557	1,444,946	1,489,068
Travel health insurance premiums	—	648,967	648,967	631,068
	14,277,953	14,333,896	28,611,849	27,076,468
Net increase (decrease) prior to change in obligations	676,202	(124,362)	551,840	895,197
Change in obligations for IBNR	(29,812)	(54,065)	(83,877)	727,137
Increase (decrease) in net assets	\$ 646,390	\$ (178,427)	\$ 467,963	\$ 1,622,334

	Unrestricted Fund		Internally Restricted Fund	Capital fund	2007 Total	2006 Total
	Dental Plan	Extended Health Plan				
Net assets, beginning of year	\$ 1,255,503	\$ 150,187	\$ 2,133,255	\$ 20,093	\$ 3,559,038	\$ 1,936,704
Increase (decrease) in net assets	652,095	(173,760)	—	(10,372)	467,963	1,622,334
Transfer for capital assets (note 5)	(537)	(439)	—	976	—	—
Transfer for internally restricted (note 7)	(38,328)	190,338	(152,010)	—	—	—
Net assets, end of year	\$ 1,868,733	\$ 166,326	\$ 1,981,245	\$ 10,697	\$ 4,027,001	\$ 3,559,038

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, 2007

1. General:

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 is not subject to income taxes.

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. The Internally Restricted Fund represents amounts restricted by the Board of Trustees for claims fluctuation reserves (note 7). 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, will be amortized on a straight-line basis over three years as the projects are completed. Amortization expense is 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, 2007

2. Significant accounting policies (continued):

(d) 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.

(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 during the year. Actual results could differ from those estimates.

3. Recent accounting pronouncements issued and not yet applied:

The Canadian Institute of Chartered Accountants (CICA) issued the following accounting standards that will come into effect for the Plans' next fiscal year. The Plans are in the process of determining the impact that these standards will have on their financial reporting.

(a) Capital Disclosures:

Section 1535 - *Capital Disclosures* establishes standards for the disclosure of: (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

(b) Financial Instruments - Disclosures and Presentation:

Sections 3862 - *Financial Instruments - Disclosures* and 3863 - *Financial Instruments - Presentation* replace the existing Section 3861 - *Financial Instruments - Disclosure and Presentation*. These new sections revise and enhance disclosure requirements, and carry forward, unchanged, existing presentation requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

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

Notes to Financial Statements (continued)

Year ended December 31, 2007

4. Due from Manitoba Blue Cross:

	2007	2006
Due from Manitoba Blue Cross - Dental Plan	\$ 3,740,280	\$ 3,074,347
Due from Manitoba Blue Cross - Extended Health Plan	1,591,767	1,727,580
	\$ 5,332,047	\$ 4,801,927

The amounts due from Manitoba Blue Cross are funds held by Manitoba Blue Cross to fund the Plan's obligations for IBNR, which are fully funded, and the claims fluctuation reserves, which are partially funded as disclosed in note 7.

Interest was earned on the amounts due from Manitoba Blue Cross ranging from 2.80 percent to 3.97 percent (2006 - 2.15 percent to 3.72 percent).

5. Capital assets:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
Computer projects	\$ 31,115	\$ 20,418	\$ 10,697	\$ 20,093

In fiscal 2007, \$976 (2006 - \$7,748) was transferred from the Unrestricted Fund to the Capital Fund for the computer projects.

6. 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.

7. Internally restricted for claims fluctuation reserves (CFR):

The Board of Trustees has approved the establishment of claims fluctuation reserves. The 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, 2007

7. Internally restricted for claims fluctuation reserves (CFR) (continued):

The Extended Health Plan consists of the Basic plan, the Retiree plan and the Enhanced plan. The reserve for each of these plans has been established at an amount equal to 15 percent of the current year's premiums. The Basic and Retiree plans have fully funded reserves while the Enhanced plan is not fully funded. The Board of Trustees has established a funding plan that will fully fund the reserve for the Enhanced plan within 3 years.

Internally restricted for CFR is allocated as follows:

	2007	2006
Dental Plan	\$ 1,480,435	\$ 1,442,107
Extended Health Plan	500,810	691,148
	<u>\$ 1,981,245</u>	<u>\$ 2,133,255</u>

8. Underlying risks:

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.

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. The balance due to HEPP is non-interest bearing, and has no fixed terms of repayment.

10. Comparative figures:

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