

LEGISLATIVE ASSEMBLY OF THE
NORTHWEST TERRITORIES
10TH ASSEMBLY, 7TH SESSION

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Report to the
Commissioner of the Northwest Territories
on the examination of the
accounts and financial statements of the
WORKERS' COMPENSATION BOARD
(Northwest Territories)
for the year ended December 31, 1985



*Workers Compensation Board
Northwest Territories*

REPORT OF MANAGEMENT TO THE COMMISSIONER

The Commissioner
Government of the Northwest Territories

The accompanying financial statements and all information in the Annual Report are the responsibility of management and the Workers' Compensation Board. The financial statements were prepared by management in conformity with accounting policies appropriate in the circumstances. The non-financial information provided in the Annual Report has been selected on the basis of its relevance to the Board's objectives and the extent to which reasonably precise measurement is practical.

The Board maintains internal financial and management systems and practices which are designed to provide reasonable assurance that reliable financial and non-financial information is available on a timely basis, that assets are acquired economically, are used efficiently to further the Board's aims, and are protected from loss or unauthorized use and that the Board acts in accordance with the laws of Canada and the Northwest Territories.

The Board, through its Audit Committee, is responsible for reviewing and monitoring the Board's management accounting and reporting practices. The Audit Committee meets with management and external auditors to satisfy itself that these responsibilities are properly discharged.

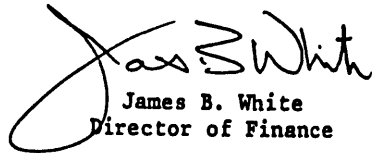
The consulting actuary, Crawford E. Laing, is requested by the Board, pursuant to the Workers' Compensation Act, annually carry out an evaluation of the Board's liabilities and assessment rates. The Actuary provides advice to the Board as to the adequacy of the provisions for various costs, including pensions and assessment rates.

The Auditor General of Canada annually provides an independent, objective, review of management's discharge of its responsibility to report fairly the operating results and financial position of the Board in accordance with accounting policies deemed appropriate for the operations of the Board. His examination includes a review and evaluation of the Board's system of internal control and appropriate tests and procedures to provide reasonable assurance, in all material respects, that the

financial statements are presented fairly. The Auditor General has full and free access to the Audit Committee and meets with it on a regular basis to discuss the results of his examination and the adequacy of financial and management controls.



Michael J. Moore
Chief Executive Officer



James B. White
Director of Finance

AUDITOR'S REPORT

The Commissioner
Government of the Northwest Territories

I have examined the balance sheet of the Workers' Compensation Board (Northwest Territories) as at December 31, 1985 and the statements of operations and operating reserve and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Board as at December 31, 1985 and the results of its operations and changes in its financial position for the year then ended in accordance with the accounting policies set out in Note 2 to the financial statements applied, after giving retroactive effect to the change in the basis of accounting for employee leave and termination benefits as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.



Raymond Dubois, C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 30, 1986

WORKERS' COMPENSATION BOARD
(Northwest Territories)

Balance Sheet
as at December 31, 1985

ASSETS

	<u>1985</u>	<u>1984</u>
	(in thousands of dollars)	
Cash and short-term investments	\$ 15,570	\$ 13,785
Assessments receivable	2,218	2,686
Accrued interest receivable	1,607	1,374
Long-term investments (Note 4)	62,212	49,213
Property and equipment (Note 5)	<u>439</u>	<u>371</u>
	<u>\$ 82,046</u>	<u>\$ 67,429</u>


LIABILITIES

Accounts payable (Note 6)	\$ 999	\$ 902
Assessments refundable	1,365	1,200
Merit rebates payable	1,965	1,640
Pension liability (Notes 7 and 10)	33,749	26,713
Future claims liability (Notes 8 and 10)	<u>21,005</u>	<u>16,794</u>
	<u>59,083</u>	<u>47,249</u>

RESERVES

Contingency (Notes 9 and 10)	15,667	14,440
Operating	<u>7,296</u>	<u>5,740</u>
	<u>22,963</u>	<u>20,180</u>
	<u>\$ 82,046</u>	<u>\$ 67,429</u>

Approved:



Director of Finance

Approved by the Workers' Compensation Board:



Chairman and Chief Executive Officer



Member

WORKERS' COMPENSATION BOARD
(Northwest Territories)

Statement of Operations and Operating Reserve
for the year ended December 31, 1985

	<u>1985</u>	<u>1984</u>
	(in thousands of dollars)	
Revenues		
Assessments	\$ 18,382	\$ 18,667
Less: Merit rebates (Note 11)	<u>1,965</u>	<u>1,640</u>
	16,417	17,027
Investment revenue	<u>10,111</u>	<u>8,054</u>
	<u>26,528</u>	<u>25,081</u>
Expenses and transfers		
Claims		
Compensation	1,563	1,582
Medical aid	<u>895</u>	<u>811</u>
	<u>2,458</u>	<u>2,393</u>
Transfers to:		
Pension liability (Note 7)	4,749	3,723
Future claims liability (Note 8)	8,761	8,631
Contingency reserve (Note 9)	<u>4,781</u>	<u>5,531</u>
	<u>18,291</u>	<u>17,885</u>
Administration and general (Note 12)	<u>4,223</u>	<u>3,949</u>
	<u>24,972</u>	<u>24,227</u>
Excess of revenues over expenses and transfers for the year	1,556	854
Operating reserve at beginning of the year (Note 3)	<u>5,740</u>	<u>4,886</u>
Operating reserve at end of the year	<u>\$ 7,296</u>	<u>\$ 5,740</u>

Workers' Compensation Board
(Northwest Territories)

Statement of Changes in Financial Position
for the year ended December 31, 1985

	<u>1985</u>	<u>1984</u>
	(in thousands of dollars)	
Funds provided:		
Operations		
Excess of revenues over expenses and transfers for the year	\$ 1,556	\$ 854
Items not requiring outlay of funds:		
Depreciation	129	30
Property and equipment written off	2	80
Transfers to:		
Pension liability	4,749	3,723
Future claims liability	8,761	8,631
Contingency reserve	<u>4,781</u>	<u>5,531</u>
	19,978	18,849
Increase in accounts payable and assessments refundable	262	14
Increase in merit rebates	<u>325</u>	<u>40</u>
Total funds provided	<u>20,565</u>	<u>18,903</u>
Funds applied:		
Pensions and claims paid from:		
Pension liability	3,059	2,418
Future claims liability	2,213	2,157
Contingency reserve	<u>545</u>	<u>337</u>
	5,817	4,912
Increase (decrease) in assessments and accrued interest receivable	(235)	609
Property and equipment purchases	<u>199</u>	<u>323</u>
Total funds applied	<u>5,781</u>	<u>5,844</u>
Net funds provided	14,784	13,059
Funds at beginning of the year	<u>62,998</u>	<u>49,939</u>
Funds (cash, short and long-term investments) at end of the year	<u>\$ 77,782</u>	<u>\$ 62,998</u>

WORKERS' COMPENSATION BOARD
(Northwest Territories)

Notes to Financial Statements
December 31, 1985

1. Authority and operations

The Workers' Compensation Board was established under, and is responsible for the administration of, the Workers' Compensation Act, 1977, c.7.

The Board provides compensation for injury or death by accident arising out of and in the course of employment. Assessments are levied upon employers on the basis of a percentage of their assessable payroll to meet the costs of compensation, including claim provisions, and administration.

2. Accounting policies

The more significant accounting policies of the Board are as follows:

(a) Investments

Investments are recorded at cost at the time of purchase. Discounts or premiums are amortized on a straight-line basis over the periods remaining to the maturity dates of the investments.

(b) Property and equipment

Property and equipment are recorded at cost and depreciated or amortized over their estimated useful life under the straight-line method as follows:

Furnishings	10 years
Equipment	5 years
Leasehold improvements	Over the term of the lease

(c) Merit rebates

Under a merit rebate plan established to encourage accident prevention practices among employers, rebates are provided for annually from current assessment revenue and allowed to employers with favourable claims experience over the three years ending in the current fiscal year.

(d) Pension liability

The pension liability represents amounts provided to meet the present value, as determined by actuarial valuation, of future payments of pension awards. Except for pension awards for industrial disease, second injury, enhanced disability, and settlements in excess of authorized limits, which are provided from the contingency reserve, all pensions awarded for the current year's claims are provided annually from operations and those awarded for prior years' claims are provided from the future claims liability.

(e) Future claims liability

The future claims liability represents amounts provided to meet the present value, as determined by actuarial valuation, of future liabilities, within authorized limits, for unfinalized accident claims in process, accidents which have occurred and have not been reported, and for additional costs arising in future years in respect of prior years' claims. Amounts are transferred annually from operations to provide for the future costs of these claims.

(f) Contingency reserve

The contingency reserve represents amounts set aside, as determined by actuarial valuation, to prevent adverse financial consequences to an industry classification as a result of excessive costs of any disaster or extraordinary circumstance including claims costs in excess of authorized limits, increases in pensions awarded and claims for industrial disease, rehabilitation and retraining of injured workers, and enhanced disability including second injury.

(g) Operating reserve

The operating reserve is maintained to provide stability to the industry classes rating structure. The reserve is increased or decreased in the amount by which assessment revenue and investment revenue of the industry classes is over or under claims expense for settlement of accidents occurring during the year within authorized limits, administration and general expenses, and transfers to pension liability, future claims liability and contingency reserve. These transfers include investment revenue allocations based on the average opening and closing balances in these accounts.

(h) Administration and general expenses

These expenses, net of assessment penalties and sundry revenue, are allocated proportionately to industry classes on the basis of assessable payroll and assessment revenue applicable to each industry class for the year.

(i) Investment revenue

Investment revenue is allocated to liabilities and reserves according to the mean account balances for the year.

3. Change in accounting policy

During the year, the Board adopted an accrual basis of accounting for employee leave and termination benefits. This change resulted in adjustments to administration and general expenses and the opening balances of the operating reserve as follows:

	<u>1985</u>	<u>1984</u>
	(in thousands of dollars)	
Administration and general expenses		
As previously reported	\$ 4,193	\$ 3,924
Accrued leave and termination benefits expense	<u>30</u>	<u>25</u>
As restated	<u>\$ 4,223</u>	<u>\$ 3,949</u>
Operating reserve at beginning of the year		
As previously reported	\$ 5,929	\$ 5,050
Less prior years' adjustment	<u>189</u>	<u>164</u>
As restated	<u>\$ 5,740</u>	<u>\$ 4,886</u>

4. Long-term investments

	<u>1985</u>		<u>1984</u>
	<u>Par Value</u>	<u>Amortized Cost</u>	<u>Amortized Cost</u>
(in thousands of dollars)			
Government of Canada bonds	\$ 48,765	\$ 51,065	\$ 33,469
Provincial bonds	9,000	9,214	8,394
Corporate bonds	<u>5,100</u>	<u>4,963</u>	<u>9,243</u>
	62,865	65,242	51,106
Less: Current portion of long-term investments included in cash and short-term investments	<u>3,000</u>	<u>3,030</u>	<u>1,893</u>
	<u>\$ 59,865</u>	<u>\$ 62,212</u>	<u>\$ 49,213</u>

The approximate market value of investments, including those maturing within one year, as at December 31, 1985 was \$68,117,000 (1984 - \$51,824,000).

5. Property and equipment

	<u>1985</u>	<u>1984</u>
	(in thousands of dollars)	
Furnishings	\$ 108	\$ 104
Equipment	491	336
Leasehold improvements	<u>97</u>	<u>59</u>
	696	499
Less: Accumulated depreciation and amortization	<u>257</u>	<u>128</u>
	<u>\$ 439</u>	<u>\$ 371</u>

6. Accounts payable

	<u>1985</u>	<u>1984</u>
	(in thousands of dollars)	
Payroll costs due to Government of the Northwest Territories	\$ 575	\$ 514
Employee leave and termination benefits liability	219	189
Other payables	<u>205</u>	<u>199</u>
	<u>\$ 999</u>	<u>\$ 902</u>

7. Pension liability

	<u>1985</u>	<u>1984</u>
	(in thousands of dollars)	
Transfers from:		
Operations - provision	\$ 388	\$ 434
- investment revenue	<u>4,361</u>	<u>3,289</u>
	4,749	3,723
Future claims liability (Note 8)	2,337	2,574
Contingency reserve (Note 9)	<u>3,009</u>	<u>2,788</u>
	10,095	9,085
Less: Pension payments	<u>3,059</u>	<u>2,418</u>
Increase for the year	7,036	6,667
Balance at beginning of the year	<u>26,713</u>	<u>20,046</u>
Balance at end of the year	<u>\$ 33,749</u>	<u>\$ 26,713</u>

8. Future claims liability

	<u>1985</u>	<u>1984</u>
	(in thousands of dollars)	
Transfer from operations - provision	\$ 6,540	\$ 7,038
- investment revenue	<u>2,221</u>	<u>1,593</u>
	<u>8,761</u>	<u>8,631</u>
Less: Claim payments	2,213	2,157
Transfer to pension liability (Note 7)	<u>2,337</u>	<u>2,574</u>
	<u>4,550</u>	<u>4,731</u>
Increase for the year	4,211	3,900
Balance at beginning of the year	<u>16,794</u>	<u>12,894</u>
Balance at end of the year	<u>\$ 21,005</u>	<u>\$ 16,794</u>

9. Contingency reserve

	<u>1985</u>	<u>1984</u>
	(in thousands of dollars)	
Transfer from operations - provision	\$ 3,045	\$ 3,946
- investment revenue	<u>1,736</u>	<u>1,585</u>
	<u>4,781</u>	<u>5,531</u>
Less: Claim payments	545	337
Transfer to pension liability (Note 7)	<u>3,009</u>	<u>2,788</u>
	<u>3,554</u>	<u>3,125</u>
Increase for the year	1,227	2,406
Balance at beginning of the year	<u>14,440</u>	<u>12,034</u>
Balance at end of the year	<u>\$ 15,667</u>	<u>\$ 14,440</u>

During 1985, the Board revised the limits at which claims cost assistance is provided to the industry sub-classes of the operating reserve which resulted in a transfer of \$2,604,000 from the contingency reserve to the operating reserve. The Board also revised the limits for making annual provisions for the contingency reserve, which

resulted in a reciprocal transfer of \$1,975,000. These changes resulted in a net increase in the operating reserve of \$629,000.

10. Actuarial evaluation

An evaluation by the actuary indicated that at December 31, 1985:

- the pension liability of \$33,749,000 (1984 - \$26,713,000) is \$3,373,000 (1984 - \$2,519,000) in excess of the actuarial liability and the excess is being retained to help provide for future pension increases; and that
- the future claims liability of \$21,005,000 and the contingency reserve of \$15,667,000 are appropriate to meet the future costs of claims that have occurred or are likely to occur.

Pension increases effective July 1, 1986 have been granted in respect of all active pensions as of July 1, 1985. These increases will result in an additional liability of \$4,682,000 which will be funded in 1986 through the actuarial surplus in respect of the pension liability and a transfer of \$1,300,000 from the contingency reserve.

11. Merit rebates

Actual 1984 merit rebates of \$1,871,000 were paid to qualified employers in 1985, which was \$231,000 greater than the provision for those rebates. The under provision was charged to the industry classes during 1985.

12. Administration and general expenses

	<u>1985</u>	<u>1984</u>
	(in thousands of dollars)	
Salaries and benefits	\$ 2,028	\$ 1,910
Office accommodation, services and supplies	774	710
Computing services	660	706
Professional services	403	326
Travel	180	173
Board members	140	109
Medical services	113	113
Safety program	51	50
	<u>4,349</u>	<u>4,097</u>
Less: Assessment penalties	104	138
Sundry revenue	22	10
	<u>126</u>	<u>148</u>
	<u>\$ 4,223</u>	<u>\$ 3,949</u>

13. Contingent legal claims receivable

The Board has a number of legal claims outstanding for recovery of compensation expenses from third parties. These claims are not recorded in the accounts because of their contingent nature. In the opinion of management and the Board's legal representatives, it is expected that the Board will recover approximately \$500,000 which will be credited to the contingency reserve as recovered.

14. Commitments

The Board leases office space under lease agreements which expire December 31, 1987 and is committed to basic rental payments aggregating \$575,000, as follows:

	(in thousands of dollars)
1986	\$ 287
1987	<u>288</u>
	<u>\$ 575</u>

15. Related party transactions

Under an agreement with the Board, the Government of the Northwest Territories pays and is reimbursed for payroll costs of the Board together with administration fees aggregating \$46,000 (1984 - \$48,000). Payroll costs not reimbursed at year end of \$575,000 (1984 - \$514,000) are included in accounts payable. In addition the Government paid workers' compensation assessments to the Board in the amount of \$679,112 (1984 - \$589,000) less merit rebates of \$39,000 (1984 - \$117,000).