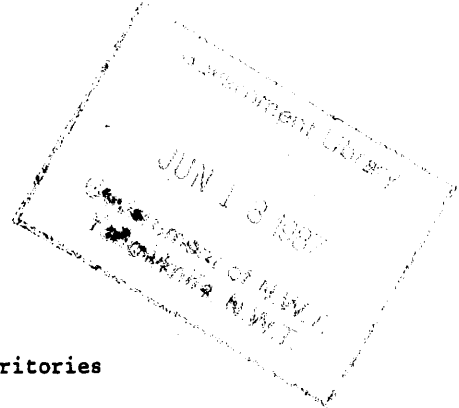


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JUN 16 1987



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, 1986



AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

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, 1986 and the statements of operations, contingency 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, 1986 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 the claims liability and reserves 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
June 2, 1987

WORKERS' COMPENSATION BOARD
(Northwest Territories)

Balance Sheet
as at December 31, 1986

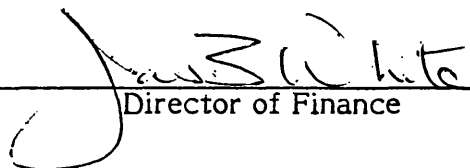
ASSETS

	<u>1986</u> (thousands of dollars)	<u>1985</u> (thousands of dollars)
Cash and short-term investments	\$ 13,903	\$ 12,540
Assessments receivable	2,000	2,218
Accrued interest receivable	2,020	1,607
Long-term investments (note 5)	77,040	65,242
Property and equipment (note 6)	<u>487</u>	<u>439</u>
	<u>\$ 95,450</u>	<u>\$ 82,046</u>

LIABILITIES AND RESERVE

Accounts payable (note 7)	\$ 787	\$ 999
Assessments refundable	1,430	1,365
Merit rebates payable	1,808	1,965
Pension liability (notes 8 and 11)	49,063	33,749
Claims liability (notes 9 and 11)	<u>27,467</u>	<u>21,005</u>
	80,555	59,083
Contingency reserve	<u>14,895</u>	<u>22,963</u>
	<u>\$ 95,450</u>	<u>\$ 82,046</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
for the year ended December 31, 1986

	<u>1986</u>	<u>1985</u>
	(thousands of dollars)	
Revenues		
Assessments	\$ 16,346	\$ 18,382
Less: Merit rebates (note 12)	<u>1,677</u>	<u>1,965</u>
	14,669	16,417
Investments	<u>12,015</u>	<u>10,111</u>
	<u>26,684</u>	<u>26,528</u>
Expenses and transfers		
Pensions (note 8)	5,494	4,749
Claims (note 13)	11,286	11,219
Administration and general	<u>3,934</u>	<u>4,223</u>
	<u>20,714</u>	<u>20,191</u>
Income from operations transferred to contingency reserve	<u>\$ 5,970</u>	<u>\$ 6,337</u>

WORKERS' COMPENSATION BOARD
(Northwest Territories)

Statement of Contingency Reserve
for the year ended December 31, 1986

	<u>1986</u>	<u>1985</u>
	(thousands of dollars)	
Balance at beginning of the year		
as previously reported	\$ 15,667	\$ 14,440
transfer from operating reserve (note 3)	<u>7,296</u>	<u>5,740</u>
as restated	<u>22,963</u>	<u>20,180</u>
• Less: Transfers to		
Pension liability (notes 4 and 8)	9,379	1,776
Claims liability (notes 4 and 9)	<u>4,659</u>	<u>1,778</u>
	<u>14,038</u>	<u>3,554</u>
	8,925	16,626
Income from operations	<u>5,970</u>	<u>6,337</u>
Balance at end of the year (notes 10 and 11)	<u>\$ 14,895</u>	<u>\$ 22,963</u>

WORKERS' COMPENSATION BOARD
(Northwest Territories)

Statement of Changes in Financial Position
for the year ended December 31, 1986

	<u>1986</u>	<u>1985</u>
	(thousands of dollars)	of dollars)
Operating activities		
Income from operations	\$ 5,970	\$ 6,337
Items not requiring outlay of funds		
Amortization of bond premiums and discounts	209	20
Depreciation	142	131
Provisions and investment income allocations		
Pension liability (note 8)	5,494	4,749
Claims liability (note 9)	<u>8,921</u>	<u>8,761</u>
	<u>20,736</u>	<u>19,998</u>
Payments from		
Pension liability (note 8)	3,333	3,060
Claims liability (note 9)	<u>3,344</u>	<u>2,757</u>
	6,677	5,817
Increase (decrease) in assessments and accrued interest receivable	195	(235)
(Increase) decrease in accounts payable, assessments refundable and merit rebates payable	304	(587)
Property and equipment purchases	<u>190</u>	<u>199</u>
	<u>7,366</u>	<u>5,194</u>
Funds provided from operating activities	<u>13,370</u>	<u>14,804</u>
Investing activities		
Funds utilized for long-term investments	<u>12,007</u>	<u>16,049</u>
Increase (decrease) in cash and short-term investments	1,363	(1,245)
Cash and short-term investments		
at beginning of the year	<u>12,540</u>	<u>13,785</u>
at end of the year	<u>\$ 13,903</u>	<u>\$ 12,540</u>

WORKERS' COMPENSATION BOARD
(Northwest Territories)

Notes to Financial Statements
December 31, 1986

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, pension awards 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) Pension liability

The pension liability represents amounts provided to meet the present value of future payments in respect of pension awards. Amounts of pensions awarded for the current year's claims are provided annually from operations, to the extent of retention limits, and those awarded for prior years' claims are provided from the claims liability.

(d) Claims liability

The claims liability represents the present value of amounts, including a provision from operations for current year's claims, required to be paid in the future for all past accident claims still in process. Amounts in excess of retention limits are provided from the contingency reserve. All compensation payments and the capitalized value of pension awards granted after the year of injury are charged to this liability.

(e) Contingency reserve

The contingency reserve is maintained to prevent instability of rates for industry classifications that could result from excessive costs of any disaster or extraordinary circumstance.

Any amounts which significantly exceed or fall short of a target level set by the Board will be amortized to industry classes through the assessment rates over a period determined by the Board.

(f) 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.

3. Change in accounting policy

During the year, the Board adopted the following accounting policy changes:

- o The claims liability (formerly named the future claims liability) was expanded to include responsibility for all future costs of prior years' claims, such as industrial disease, enhanced disability, rehabilitation and retraining of injured workers, and amounts in excess of retentions. These liabilities had previously been charged to the contingency reserve. The additional liability of \$6,570,000 was funded through an existing excess of \$5,744,000 in the claims liability and a transfer of \$826,000 from the contingency reserve.
- o The operating reserve was eliminated and the balance of \$7,296,000 (1985 - \$5,740,000) was transferred to the contingency reserve.

These changes were made for purposes of:

- o combining the estimated future costs of all past accidents into the claims liability, and
- o combining the provisions for future costs, which cannot be anticipated, into the contingency reserve.

4. Change in liability valuation policy

The Board changed the net discount rates used in the present value determination of the pension and claims liabilities from 3 per cent for post 1976 claims and 6 per cent for pre 1977 claims to a common 2.5 per cent as at December 31, 1986, in order to strengthen the valuation basis for the liabilities, in accordance with the full funding policy of the Board. This change resulted in increases of \$7,100,000 in the pension liability and \$2,367,000 in the claims liability which are included in the respective transfers from the contingency reserve.

5. Long-term investments

	1986		1985
	Par Value	Amortized Cost	Amortized Cost
(thousands of dollars)			
Government of Canada bonds	\$ 45,961	\$ 48,387	\$ 51,065
Provincial bonds	24,400	24,699	9,214
Corporate bonds	<u>4,000</u>	<u>3,954</u>	<u>4,963</u>
	<u>\$ 74,361</u>	<u>\$ 77,040</u>	<u>\$ 65,242</u>

The approximate market value of long-term investments as at December 31, 1986 was \$79,375,000 (1985 - \$68,117,000).

6. Property and equipment

	1986	1985
(thousands of dollars)		
Furnishings	\$ 126	\$ 108
Equipment	660	491
Leasehold improvements	<u>98</u>	<u>97</u>
	884	696
Less: Accumulated depreciation and amortization	<u>397</u>	<u>257</u>
	<u>\$ 487</u>	<u>\$ 439</u>

7. Accounts payable

	<u>1986</u>	<u>1985</u>
	(thousands of dollars)	
Payroll costs due to Government of the Northwest Territories	\$ 336	\$ 575
Employee leave and termination benefits liability	244	219
Other payables	<u>207</u>	<u>205</u>
	<u>\$ 787</u>	<u>\$ 999</u>

8. Pension liability

	<u>1986</u>	<u>1985</u>
	(thousands of dollars)	
Transfers from		
Operations - provision	\$ 72	\$ 388
- investment revenue	<u>5,422</u>	<u>4,361</u>
	5,494	4,749
Claims liability (note 9)	3,774	3,571
Contingency reserve (note 4)	<u>9,379</u>	<u>1,776</u>
	18,647	10,096
Less: Pension payments	<u>3,333</u>	<u>3,060</u>
Increase for the year	15,314	7,036
Balance at beginning of the year	<u>33,749</u>	<u>26,713</u>
Balance at end of the year	<u>\$ 49,063</u>	<u>\$ 33,749</u>

Supplementary pension increases effective January 1, 1987 have been granted in respect of all active pensions as of December 31, 1986. These increases will result in an additional liability of \$6,564,000 which will be funded in 1987 through the actuarial surplus of \$3,884,000 in the pension liability and a transfer of \$2,680,000 from the contingency reserve (see note 11).

9. Claims liability

	<u>1986</u>	<u>1985</u>
	(thousands of dollars)	
Transfers from		
Operations - provision (note 13)	\$ 6,167	\$ 6,540
- investment revenue (note 13)	<u>2,754</u>	<u>2,221</u>
	8,921	8,761
Contingency reserve (notes 3 and 4)	<u>4,659</u>	<u>1,778</u>
	<u>13,580</u>	<u>10,539</u>
Less: Claims payments	3,344	2,757
Transfer to pension liability (note 8)	<u>3,774</u>	<u>3,571</u>
	<u>7,118</u>	<u>6,328</u>
Increase for the year	6,462	4,211
Balance at beginning of the year	<u>21,005</u>	<u>16,794</u>
Balance at end of the year	<u>\$ 27,467</u>	<u>\$ 21,005</u>

10. Contingency reserve

The year end balance in the contingency reserve of \$14,895,000 (1985 - \$22,963,000) includes \$2,680,000 (1985 - \$1,300,000) which will be transferred to the pension liability on January 1 of the following year to assist in funding supplementary pension increases.

11. Actuarial evaluation

An evaluation by the actuary indicated that at December 31, 1986:

- the pension liability of \$49,063,000 (1985 - \$33,749,000) is \$3,884,000 (1985 - \$3,373,000) in excess of the actuarial liability and the excess is being retained to help provide for future supplementary pension increases;
- the claims liability of \$27,467,000 is sufficient to meet the actuarial requirement in full; and
- the contingency reserve of \$14,895,000 less the 1987 transfer of \$2,680,000 to the pension liability is adequate and appropriate to meet the costs of potential disasters or other extraordinary circumstances.

12. Merit rebates

Under the merit rebate plan, rebates have been provided annually from current assessment revenue and allowed to employers with favourable claims experience over the three years ending in the current fiscal year.

Actual 1985 merit rebates of \$1,889,000 were paid to qualified employers in 1986, which was \$76,000 less than the provision for those rebates. The over provision was credited to the industry classes during 1986.

The merit rebate program is being discontinued after 1986, but rebates in respect of 1986 will be paid in 1987 to qualified employers.

13. Claims expense

	<u>1986</u>	<u>1985</u>
	(thousands of dollars)	
Payments on current year's claims		
Compensation	\$ 1,531	\$ 1,563
Medical aid	<u>834</u>	<u>895</u>
	2,365	2,458
Provision to claims liability for future payments on current year's claims (note 9)	<u>6,167</u>	<u>6,540</u>
Total current year's claims expense	8,532	8,998
Investment revenue allocation to claims liability (note 9)	<u>2,754</u>	<u>2,221</u>
	<u>\$ 11,286</u>	<u>\$ 11,219</u>

14. 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 \$850,000 which will be credited to the claims liability as recovered.

15. Commitment

The Board is committed to payments aggregating \$288,000 under an office space lease agreement which expires December 31, 1987.

16. 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 \$44,000 (1985 - \$46,000). Payroll costs not reimbursed at year end of \$336,000 (1985 - \$575,000) are included in accounts payable. In addition, the Government paid workers' compensation assessments to the Board in the amount of \$724,000 (1985 - \$642,000) less merit rebates of \$26,000 paid in 1986 (1985 - \$39,000). 1986 merit rebates will be calculated and paid in 1987.

17. Comparative figures

Certain of the 1985 comparative figures have been reclassified to conform to the presentation adopted in 1986.