



2024 FINANCIAL REPORTS

It is recommended the following pages be read in combination with the Financial Analysis section in the WCB 2024 Annual Report, which is available at wcb.pe.ca

Management Responsibility of Financial Reporting

The financial statements of The Workers Compensation Board of Prince Edward Island (WCB) are the responsibility of management and have been prepared in conformity with International Financial Reporting Standards. The preparation of financial information is an integral part of management's broader responsibility for the ongoing operations of the WCB. Based on management's knowledge, having exercised reasonable diligence, the financial statements fairly represent, in all material respects, the financial conditions, results of operations, and cash flow as at December 31, 2024.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains the internal controls necessary to provide reasonable assurance that relevant and reliable information is produced and those assets are properly safeguarded. The effectiveness of controls over financial reporting was assessed and found to provide reasonable assurance that internal controls as at December 31, 2024, operate effectively with no material weakness in the design or operation of the controls.

The Board of Directors is responsible for overseeing management in the performance of financial reporting responsibilities and has approved the financial statements included in this Financial Report.

The Board of Directors is assisted in its responsibilities by the Audit Committee. The Audit Committee reviews and recommends approval of the financial statements and meets periodically with management, internal and external auditors, and actuaries concerning internal controls and all other matters relating to financial reporting.

Eckler, as the WCB's independent actuary, has certified two actuarial valuations of the insurance contract liabilities for insured employers under the Workers Compensation Act of Prince Edward Island as at December 31, 2024, and reported thereon in accordance with accepted actuarial practice in Canada. Each actuarial valuation has a specific use by management in preparation of the annual audited financial statements. One valuation is required under the International Financial Reporting Standard 17 (IFRS 17) that became effective January 1, 2023. The other valuation is used by the WCB to make funding and capital management decisions in accordance with the organization's Funding Policy (POL-136).

Grant Thornton, as the WCB's independent auditor, has performed an audit of the WCB financial statements in accordance with International Financial Reporting Standards (IFRS). The Independent Auditors' Report outlines the scope of this independent audit and includes the opinion expressed on the financial statements.



Daniel M. Campbell
Chief Executive Officer



Norman MacDonald, CPA, CA, CF
Chief Financial Officer

ACTUARIAL CERTIFICATE

We have completed an actuarial valuation of the benefit liabilities for insured employers under the Workers Compensation Act of Prince Edward Island (the "Act") as at December 31, 2024 in accordance with IFRS 17, for the purpose of providing input to the financial statements of the Workers Compensation Board of Prince Edward Island (the "Board"). The valuation is in respect of assessed firms only, and does not include any provision for future payments in respect of self-insured firms.

Our estimate of the benefits liabilities of \$173,890,000 represents the actuarial present value at December 31, 2024, of all expected benefit payments which will be made in future years, and which relate to claims arising from events which occurred on or before December 31, 2024. The liabilities include a provision for future administrative expenses based on a study conducted by Board staff. The liabilities also include a provision for potential outstanding latent occupational disease awards. No allowance has been made in these liabilities for any future deviations from the present policies and practices of the Board or for the extension of new coverage types.

Data required for the valuation has been provided by the Board. We have reviewed the valuation data to test for reasonableness and consistency with the data used in prior years.

The liabilities have been allocated into five categories, namely: temporary wage loss; pensions and extended wage loss; health care; rehabilitation and administration.

All liabilities have been calculated using underlying assumptions of 4.70% per annum for the gross discount rate in accordance with IFRS 17 and 2.25% per annum for the rate of increase in the Consumer Price Index.

The CPI assumption equates to inflation rates for indexation of benefits of 2.25% per annum in respect of pensions, extended wage loss and survivor benefits. No indexing is applied to Section 43 awards in-pay in accordance with Board policy.

Liabilities in respect of permanent extended wage loss, pensions, and Section 43 awards in-pay have been determined by projecting cash flows on an individual claimant basis using mortality as the only decrement.

Liabilities in respect of future extended wage loss and related annuity benefits have been determined based on factors developed from historical patterns of awards, and using mortality, interest, and inflation assumptions identical to those used in determining the existing extended wage loss liabilities.

The liabilities in respect of temporary wage loss, health care, rehabilitation and permanent impairment lump sum awards have been determined from projections of future claim payments. These projections have been based on continuation of recent payment patterns by years since the injury. An inflation rate of 2.25% per annum has been used to project future cash flows for temporary wage loss, wage-related rehabilitation, and permanent impairment lump sums. For health care and non-wage related rehabilitation, we used an inflation rate of 4.25% per annum reflecting the greater expected inflation and utilization rate for these benefit categories.

Effective January 1, 2025, amendments to the Act allow workers to be compensated for psychological injuries caused by workplace harassment arising from or in the course of employment. Given this coverage is new, any impact will be reflected in future actuarial valuations. We are not aware of any other events subsequent to the valuation date that would have a material impact on our liability calculations.

It is our opinion that:

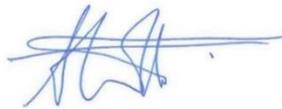
- the data on which the valuation is based are sufficient and reliable for the purpose of the valuation;
- the assumptions are appropriate for the purpose of the valuation;
- the methods employed in the valuation are appropriate for the purpose of the valuation; and
- the amount of the benefits liabilities makes appropriate provision for all personal injury compensation obligations and the financial statements fairly present the results of the valuation.

Our valuation report has been prepared and our opinions have been given in accordance with accepted actuarial practice in Canada.

Further information on the data, assumptions, methods, and valuation results can be found in our actuarial valuation report.



Jeff Turnbull, FSA, FCIA



Scott Mossman, FSA, FCIA

ACTUARIAL CERTIFICATE

We have completed an actuarial valuation of the benefit liabilities for insured employers under the Workers Compensation Act of Prince Edward Island (the “Act”) as at December 31, 2024, for the purpose of providing information for the funding activities of the Workers Compensation Board of Prince Edward Island (the “Board”). The valuation is in respect of assessed firms only, and does not include any provision for future payments in respect of self-insured firms.

Our estimate of the benefits liabilities of \$164,784,000 represents the actuarial present value at December 31, 2024, of all expected benefit payments which will be made in future years, and which relate to claims arising from events which occurred on or before December 31, 2024. The liabilities include a provision for future administrative expenses based on a study conducted by Board staff. The liabilities also include a provision for potential outstanding latent occupational disease awards. No allowance has been made in these liabilities for any future deviations from the present policies and practices of the Board or for the extension of new coverage types.

Data required for the valuation has been provided by the Board. We have reviewed the valuation data to test for reasonableness and consistency with the data used in prior years.

The liabilities have been allocated into five categories, namely: temporary wage loss; pensions and extended wage loss; health care; rehabilitation and administration.

All liabilities have been calculated using underlying assumptions of 3.25% per annum for the real rate of return on invested assets and 2.25% per annum for the rate of increase in the Consumer Price Index.

The CPI assumption equates to inflation rates for indexation of benefits of 2.25% per annum in respect of pensions, extended wage loss and survivor benefits. No indexing is applied to Section 43 awards in-pay in accordance with Board policy.

Liabilities in respect of permanent extended wage loss, pensions, and Section 43 awards in-pay have been determined by projecting cash flows on an individual claimant basis using mortality as the only decrement.

Liabilities in respect of future extended wage loss and related annuity benefits have been determined based on factors developed from historical patterns of awards, and using mortality, interest, and inflation assumptions identical to those used in determining the existing extended wage loss liabilities.

The liabilities in respect of temporary wage loss, health care, rehabilitation and permanent impairment lump sum awards have been determined from projections of future claim payments. These projections have been based on continuation of recent payment patterns by years since the injury. An inflation rate of 2.25% per annum has been used to project future cash flows for temporary wage loss, wage-related rehabilitation, and permanent impairment lump sums. For health care and non-wage related rehabilitation, we used an inflation rate of 4.25% per annum reflecting the greater expected inflation and utilization rate for these benefit categories.

Effective January 1, 2025, amendments to the Act allow workers to be compensated for psychological injuries caused by workplace harassment arising from or in the course of employment. Given this coverage is new, any impact will be reflected in future actuarial valuations. We are not aware of any other events subsequent to the valuation date that would have a material impact on our liability calculations.

It is our opinion that:

- the data on which the valuation is based are sufficient and reliable for the purpose of the valuation;
- the assumptions are appropriate for the purpose of the valuation;
- the methods employed in the valuation are appropriate for the purpose of the valuation; and
- the amount of the benefits liabilities makes appropriate provision for all personal injury compensation obligations and the financial statements fairly present the results of the valuation.

Our valuation report has been prepared and our opinions have been given in accordance with accepted actuarial practice in Canada.

Further information on the data, assumptions, methods, and valuation results can be found in our actuarial valuation report.



Jeff Turnbull, FSA, FCIA



Scott Mossman, FSA, FCIA

Financial Statements

Workers Compensation Board of Prince Edward Island

December 31, 2024



Contents

	Page
Independent Auditor's Report	1-2
Statements of Comprehensive Income	3
Statements of Changes in Fund Balance	4
Statements of Financial Position	5
Statements of Cash Flows	6
Notes to the Financial Statements	7 - 41

Independent Auditor's Report

Doane Grant Thornton LLP
Suite 410
98 Fitzroy Street, PO Box 187
Charlottetown, PE
C1A 7K4
T +1 902 892 6547
F +1 902 566 5358

To the members of the Board of the
Workers Compensation Board of Prince Edward Island

Opinion

We have audited the financial statements of the Workers Compensation Board of Prince Edward Island (“the Board”), which comprise the statement of financial position as at December 31, 2024, and the statements of comprehensive income, changes in fund balance and cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Workers Compensation Board of Prince Edward Island as at December 31, 2024, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Board 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 International Financial Reporting Standards (IFRS), 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 Board'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 Board or to cease operations, or has no realistic alternative but to do so.

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

Auditor's 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 auditor's 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 these 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 Board'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 Board's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Board 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 represent the underlying transactions and events in a manner that achieves fair presentation.

We 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.

Charlottetown, Prince Edward Island
May 15, 2025



Chartered Professional Accountants

Workers Compensation Board of Prince Edward Island

Statements of Comprehensive Income

Year ended December 31

2024

2023

Insurance revenue (Note 12)	\$ 43,542,491	\$ 42,273,313
Insurance service expense (Note 10 and 12)	<u>33,448,606</u>	<u>31,831,777</u>
Insurance service result	10,093,885	10,441,536
Investment income (Note 3)	28,261,366	18,562,232
Investment fees (Note 3)	<u>(872,089)</u>	<u>(777,940)</u>
Net investment income	27,389,277	17,784,292
Insurance finance expense (Note 13)	<u>(9,800,319)</u>	<u>(13,094,851)</u>
	27,682,843	15,130,977
Other income and expenses		
Administrative and general expenses (Note 10)	(3,222,501)	(2,944,961)
Distribution to employers	-	(20,725,168)
Admin fees from self-insured employers (Note 14)	<u>286,227</u>	<u>223,023</u>
Total other income (expenses)	<u>(2,936,274)</u>	<u>(23,447,106)</u>
Income (loss) before other comprehensive (loss) income	<u>24,746,569</u>	<u>(8,316,129)</u>
Other comprehensive (loss) income		
Items that will not be classified in the statement of comprehensive (loss) income - change in actuarial gains or losses	<u>(15,100)</u>	<u>65,700</u>
Total comprehensive income (loss)	\$ 24,731,469	\$ (8,250,429)

See accompanying notes and schedule to the financial statements.

Workers Compensation Board of Prince Edward Island

Statements of Changes in Fund Balance

Year ended December 31

	<u>Fund balance</u>	<u>Total accumulated comprehensive income (loss)</u>	<u>Total fund balance</u>
Balance at January 1, 2023	\$ 75,667,427	\$ (228,805)	\$ 75,438,622
Loss before other comprehensive income	(8,316,129)	-	(8,316,129)
Other comprehensive income	-	65,700	65,700
Balance at December 31, 2023	<u>\$ 67,351,298</u>	<u>\$ (163,105)</u>	<u>\$ 67,188,193</u>
Total comprehensive income for the year			
Income before other comprehensive loss	24,746,569	-	24,746,569
Other comprehensive loss	-	(15,100)	(15,100)
Balance at December 31, 2024	<u>\$ 92,097,867</u>	<u>\$ (178,205)</u>	<u>\$ 91,919,662</u>

See accompanying notes and schedule to the financial statements.

Workers Compensation Board of Prince Edward Island

Statements of Financial Position

	Notes	2024	2023
Assets			
Cash and cash equivalents		\$ 7,822,143	\$ 7,101,385
Receivables		448,433	190,098
Investments	3	253,868,827	226,979,897
Property and equipment	5	3,686,849	3,571,194
Intangible assets	6	1,142,920	1,264,720
Right of use asset	8	769,975	-
		<u>\$ 267,739,147</u>	<u>\$ 239,107,294</u>
Liabilities and fund balance			
Payables and accruals	9	\$ 2,529,916	\$ 2,233,464
Employee future benefits	11	1,775,800	1,650,700
Insurance contract liabilities	12	170,743,794	168,034,937
Lease liability	8	769,975	-
		<u>175,819,485</u>	<u>171,919,101</u>
Fund balance		<u>91,919,662</u>	<u>67,188,193</u>
		<u>\$ 267,739,147</u>	<u>\$ 239,107,294</u>

On behalf of the Board



Chair



Chief Executive Officer

See accompanying notes and schedule to the financial statements.

Workers Compensation Board of Prince Edward Island

Statements of Cash Flows

Year ended December 31

2024

2023

Cash flow from operating activities

Cash received from:		
Assessed employers	\$ 42,612,269	\$ 42,272,295
Self-insured employers for assessments	<u>1,502,101</u>	<u>675,137</u>
	<u>44,114,370</u>	<u>42,947,432</u>
Cash paid:		
To claimants or third parties on their behalf	(30,291,000)	(27,118,000)
Self-insured claims	(1,502,101)	(675,137)
Distribution to employers	-	(20,725,168)
For administration requirements and other goods	(3,624,095)	(2,310,099)
For salaries to employees	<u>(8,815,409)</u>	<u>(7,963,591)</u>
	<u>(44,232,605)</u>	<u>(58,791,995)</u>
Net cash used by operating activities	<u>(118,235)</u>	<u>(15,844,563)</u>

Cash flow from investing activities

Cash received from:		
Investment income, net of fees	7,238,338	5,624,987
Sale of investments	<u>85,145,631</u>	<u>74,394,326</u>
	<u>92,383,969</u>	<u>80,019,313</u>
Cash paid for:		
Purchase of investments	(90,972,344)	(63,005,087)
Purchase of intangible assets	(97,798)	(150,812)
Purchase of property and equipment	<u>(474,834)</u>	<u>(792,150)</u>
	<u>(91,544,976)</u>	<u>(63,948,049)</u>
Net cash provided by investing activities	<u>838,993</u>	<u>16,071,264</u>

Net increase in cash and cash equivalents 720,758 226,701

Cash and cash equivalents		
Beginning of year	<u>7,101,385</u>	<u>6,874,684</u>
End of year	<u>\$ 7,822,143</u>	<u>\$ 7,101,385</u>

See accompanying notes and schedule to the financial statements.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

1. Nature of operations

The Workers Compensation Board of Prince Edward Island (“the Board”) was established by the Prince Edward Island Legislature in 1949 under the *Workers Compensation Act*. The Board has a mandate for the administration of a workers’ compensation system as defined by the *Workers Compensation Act* and for the administration of health and safety programs as defined by the *Occupational Health and Safety Act*. The Board’s head office is located in Charlottetown, Prince Edward Island, Canada.

The nature of operations includes administering payments of benefits to or on behalf of workers, levying and collecting assessment revenues from employers, investing Board funds, inspecting Prince Edward Island workplaces, enforcing health and safety standards defined by legislation and delivering health and safety education and prevention programs. The current *Workers Compensation Act* became effective on January 1, 1995. The current *Occupational Health & Safety Act* became effective on May 20, 2006.

The Board does not receive government funding.

The financial statements were authorized for issue in accordance with a resolution of the Board of Directors on May 15, 2025.

2. Summary of material accounting policies

Basis of presentation and adoption of IFRS

The financial statements of the Board have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements of the Workers Compensation Board of Prince Edward Island comply, in all material respects, with IFRS as issued by the International Accounting Standards Board (IASB) in effect as at December 31, 2024.

The material accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied, except where departure from IFRS is explicitly permitted under the transitional provisions for first time application of IFRS or another IFRS.

Basis of measurement

The financial statements of the Board have been prepared on a historical cost basis except for investments in the statement of financial position that are reported at fair value. The Board’s functional currency is the Canadian dollar, which is the currency of the primary economic environment in which the Board operates, which is also the presentation currency of the financial statements.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks. Cash and short-term investments held by custodians for investment purposes are not available for general use and, accordingly, are included in investments.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the closing rate, which is the spot exchange rate in effect at the date of the statement of financial position. Exchange differences arising from settlement of monetary items and the subsequent translation of monetary items are included in the statement of operations in the period in which they arise.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

2. Summary of material accounting policies (cont'd)

Accounting estimates and measurement uncertainty

The preparation of financial statements in conformity with IFRS requires the use of judgements, assumptions and estimates as at the date of the financial statements that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities and the reported amounts of revenues and expenses during the reporting periods presented.

Measurement uncertainty exists when there is a variance between the recognized amount and another reasonable amount. Some accounting measurements require management's best estimate, based on assumptions as at the financial statement date, that reflect the most probable set of economic conditions and planned courses of action.

Investments, insurance contracts liabilities, employee future benefits, accrued assessments, allowance for doubtful accounts and depreciation are the most significant items that are based on accounting estimates. Actual results could differ from the estimates made by management in these financial statements and these differences, which may be material, could require adjustment in subsequent reporting periods. See Note 3 for additional details on investments and Note 12 for additional details on insurance contracts liabilities.

Revenue recognition

The Board recognizes revenue when services have been provided, it is probable that the associated economic benefits will flow to the Board and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business.

Self-insured employers are individually responsible for costs attributable to claims arising from their employees. These claim costs are subject to a transactional based administration fee which is recognized in revenue as they occur.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

2. Summary of material accounting policies (cont'd)

Insurance contracts

Classification

The Board issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its employers. As a general guideline, the Board determines whether it has significant insurance risk by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. The Board issues workers compensation benefits to employees of businesses operating in Prince Edward Island. This insurance offers protection of business' assets and indemnification of parties that have suffered damage because of a workplace accident.

Separating components

The Board assesses its insurance contracts to determine whether they contain distinct components which must be accounted for under another IFRS. After separating distinct components, the Board applies IFRS 17 to all remaining components of the insurance contract. The Board has separated the arrangement with self-insured employers and applies IFRS 15 Revenue from Contracts with Customers, as further described in Note 14.

Level of aggregation

IFRS 17 requires the Board to determine the level of aggregation for applying its requirements. The level of aggregation for the Board is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remainder. IFRS 17 also requires that no group for level of aggregation purposes may contain contracts issued more than one year apart.

The Board has determined to group the insurance contracts issued as a single portfolio by year as all of the Board's insurance contracts are issued at the same time annually or within the same annual coverage period for new employers. The single portfolio consists of individual insurance contracts to provide insurance benefits to injured workers for covered injuries sustained in the workplace or as a result of their employment. The portfolio of contracts is then divided by profitability. Within each year, portfolio of insurance contracts are divided into the following:

- A group of contracts that are onerous at initial recognition (if any);
- A group of contracts that, at initial recognition, have no significant possibility of becoming onerous subsequently (if any); and
- A group of the remaining contracts in the portfolio (if any).

The Board performs an annual assessment of the profitability of its portfolio to determine the expected profitability. The Board allocates each annual portfolio to the same profitability grouping based on the Board's pricing and risk management strategies based on the collective risk of all insured employers.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

2. Summary of material accounting policies (cont'd)

Recognition

The Board recognizes groups of insurance contracts it issues from the earliest of the following;

- The beginning of the coverage period of the group of contracts;
- The date when the first payment is due from an employer or when the first payment is received; or
- For a group of onerous contracts, if facts and circumstances indicate that the group is onerous.

The Board's insurance contracts are recognized on a calendar basis with initial recognition generally being January 1, aside from new employers to the Board. The Board's contracts become effective on January 1 annually for existing employers which coincides with the beginning of the coverage period and when the premium rates are considered binding. New employers are added to the insurance contract portfolio when one of the above conditions are met.

Contract boundary

The contract boundary is used to determine the cash flows to be included in the groups of insurance contracts. A substantive obligation to provide insurance contract service ends when:

- The Board has the ability to reassess risks of the employer and as a result can set a price that reflects those risks or;
- Both of the following criteria are satisfied:
 - The Board has the ability to price the group of contracts so that the price reflects the reassessed risk of the group of insurance contracts; and
 - The pricing of premiums related to coverage to the date when risks are reassessed does not reflect the risks related to periods beyond the reassessment date.

The Board has determined that the insurance contracts have annual terms that are guaranteed to be renewable each year; however, the Board has the ability to re-price the premiums based on risk, experience and historical information annually. As the substantive obligation to provide the employer with insurance coverage ends when the Board has the ability to reprice the risks of the employer, the contract boundary and cash flows are considered to be one year.

Measurement – premium allocation approach

The Board applies the premium allocation approach (PAA) to all the insurance contracts that it issues as the coverage period of each contract in the group is one year or less, including insurance contract services arising from all premiums within the contract boundary. Insurance acquisition costs are expensed as incurred and liability for incurred claims are adjusted for the time value of money.

Initial measurement

For groups of insurance contracts that are not onerous at initial recognition, the Board measures the liability for remaining coverage at inception as the premiums, if any, received at initial recognition. The Board has elected to immediately expense any acquisition costs and does not incur any other cash flows prior to the contract commencement date; therefore, no other adjustments are made to the liability for remaining coverage at initial recognition. Where the contract boundary is one year, there is no adjustment required for accretion of interest on the liability for remaining coverage.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

2. Summary of material accounting policies (cont'd)

For insurance contracts that facts and circumstances indicate that the group of insurance contracts is onerous at initial recognition, the Board separately groups the onerous contracts from other contracts and recognizes a loss in the statement of comprehensive income. The Board would also establish a loss component for the liability for remaining coverage for such onerous contracts on initial measurement.

Subsequent measurement

Liability for remaining coverage

The Board measures the carrying amount of the liability for remaining coverage at the end of each reporting period as the liability for remaining coverage at the beginning of the period:

- Plus premiums received in the period; and
- Minus the amount recognized as insurance revenue for the services provided in the period

Liability for incurred claims

The Board estimates the liability for incurred claims as the fulfillment cash flows related to incurred claims. The fulfillment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows, reflect current estimates from the Board, and include an explicit adjustment for non-financial risk. The Board does not adjust the future cash flows for the time value of money and the effect of financial risk for incurred claims that are expected to be paid within one year of being incurred.

Fulfillment cash flows

Fulfillment cash flows comprise the probability-weighted estimates of future cash flows, discounted to reflect the time value of money and the associated financial risks, plus a risk adjustment for non-financial risk. Fulfillment cash flows are comprised of direct expenditures related to insurance activities plus an allocation of indirect expenditures. Management has applied judgement as to the allocation of general and administrative expenses in the determination of the amounts attributable to insurance activities.

Discount rates

Insurance contract liabilities are calculated by discounting expected future cash flows at the sum of a risk-free yield curve derived from Government of Canada bonds and an illiquidity premium derived from a reference portfolio. The bottom-up approach was applied in the determination of the discount rate using the Fiera Capital Corporation's IFRS 17 reference curve.

The change in the liability for incurred claims as a result of changes in discount rates will be captured within insurance finance income or expense.

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that the Board requires for bearing the uncertainty about the amount and timing of the cash flow of insurance contracts. Although non-financial risks are inherent in the operations of the Board, due to the nature of operations, the Board does not seek compensation for the uncertainty around the amount and timing of cash flows that arise from the non-financial risks. As the Board generates sufficient premiums and income from investments to fully fund the operations of the insurance business and other administrative activities, there is no compensation required or earned by the Board for such risk and as such, the risk adjustment was determined to be approximately nil or negligible.

The Board estimated the risk adjustment using a 50% confidence level, which is the probability that the actual outcome of future cash flows associated with the Boards claims and expenses will be less than the liability.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

2. Summary of material accounting policies (cont'd)

The liability for incurred claims represents the present value of expected future payments in respect of claims arising from accidents that occurred prior to the end of the fiscal year as well as an allowance for all recognized latent occupational disease claims expected to arise in the future as a result of past exposures. Occupational diseases differ from other types of occupational injuries in that there can be a considerable time lag between the exposure, the manifestation of the disease and the identification of the ensuing disability as a claim. Further, it may be difficult to establish a link between an occupational disease and the workplace. A portion of the total liability is held based on the accumulated exposure up to the valuation date relative to total exposure before manifestation of the occupational disease. The liability for incurred claims also includes an allowance for future claims management costs.

The liability for incurred claims includes provision for all benefits provided by current legislation, policies, and administrative practices. Many assumptions are required to calculate the benefits liability, including estimates of future inflation, interest rates, and mortality rates. The liability for incurred claims is determined annually by an independent actuary. The independent actuary's opinion on the adequacy and appropriateness of the benefits liability is attached to these financial statements.

Onerous contracts

If, during the contract period, facts and circumstances indicate that a group of insurance contracts is onerous, the Board recognizes a loss in the statement of comprehensive income for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfillment cash flows. A loss component is established by the Board for the liability for remaining coverage for the onerous group showing the losses recognized.

Modification and derecognition

The Board derecognizes insurance contracts when the rights and obligations relating to the contract are extinguished, or the contract is modified such that the modification results in a change in the measurement model or the applicable standard for measuring a component of the contract, substantially changes the contract boundary, or requires the modified contract to be included in a different group. As a result, the Board derecognizes the initial contract and recognizes the modified contract as a new contract. When a modification is not treated as a derecognition, the Board recognizes amounts paid or received for the modification with the contract as an adjustment to the relevant liability for remaining coverage.

Insurance revenue

At the beginning of each year, the Board levies assessments on employers by applying their employer specific industry assessment rate to their estimated payrolls for the year. The assessment levy is payable by instalments during the year. At year end, employers file a statement of actual assessable payroll and the difference between the estimated assessment and the actual assessment is recognized either as an increase in insurance revenue and recognized as a receivable, or as a decrease in insurance revenue and recognized as assessment refundable. When an employer does not provide estimated payroll, the Board estimates, and levies assessments based on prior experience with the employer and industry.

Insurance revenue recognized for the period is the amount of expected assessment receipts allocated to the period. The Board allocates the expected assessment receipts to each period of the insurance contract service on the basis of the passage of time (the calendar year).

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

2. Summary of material accounting policies (cont'd)

Insurance finance income and expense

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from:

- The effect of the time value of money and changes in the time value of money; and
- The effect of financial risk and changes in financial risk.

The Board recognizes all insurance and finance income and expenses through the statement of comprehensive income.

Presentation

The Board has presented separately, in the statement of financial position, the carrying amount of portfolios of insurance contracts issued that are assets and portfolios of insurance contracts issued that are liabilities.

The Board disaggregates the total amount recognized in the statement of comprehensive income into an insurance service result, comprising insurance revenue and insurance service expense, and insurance finance income or expenses.

Specific accounting policies

To facilitate a better understanding of the Board's financial statements, material accounting policies are disclosed in the notes, where applicable, of the related accounting topics. A listing of these notes is as follows:

Note	Topic	Page
3	Investments	14
5	Property and equipment	22
6	Intangible assets	24
8	Leases	25
9	Payables and accruals	26
11	Employee benefits	27
12	Insurance contract liabilities	29
14	Self-insured employers	39

Future accounting standards and reporting changes not yet adopted

The International Accounting Standards Board (the IASB) is continually working toward improving and developing new accounting standards. The IASB has issued a number of exposure drafts of new standards that are expected to come into effect over the next several years. The Board continually monitors the IASB work plans and publications to assess any potential impact on the organization.

In April 2024, the International Accounting Standards Board (IASB) issued the new accounting standard, IFRS 18 'Presentation and Disclosure in Financial Statements'. This will replace the existing IAS 1 'Presentation of Financial Statements' standard. The new standard sets out a new presentation requirement for the statement of profit or loss, and providing new definitions and disclosures related to non-IFRS performance measures. IFRS 18 is effective for annual reporting periods beginning on or after January 1, 2027, with earlier application permitted. The Board is currently assessing the impact IFRS 18 will have on the financial statements.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

3. Investments

Accounting policy

All the Board's portfolio investments, except real-return bonds, are classified as fair value through profit or loss investments. Real return bonds have been designated by the Board as fair value through profit or loss as permitted under IFRS 9. As such, all portfolio investments are recorded at their fair value. The Board recognizes interest revenue as earned, dividends when declared and investment gains and losses when realized. Realized gains and losses represent the difference between the amounts received through the sale of the investments and their respective cost base. Unrealized gains and losses on fair value through profit or loss investments are recognized as investment income at year end based on the fair value of the investments at that time. When an investment is sold, the cumulative unrealized gain or loss is reclassified as a realized gain or loss in investment income on the statement of comprehensive income. Investment income also includes interest income and income distributions from pooled funds. The Board utilizes trade date accounting for all purchases and sales of financial instruments in its investment portfolio. Transactions are recorded on the date an agreement is entered (the trade date) and not on the date the transaction is finalized (the settlement date). Investments denominated in foreign currency are translated into Canadian dollars at the exchange rate in effect at the statement of financial position date. Revenues and expenses are translated at the exchange rates in effect on the transactions date. The foreign currency exchange gains or losses for these investments are recorded in the same manner as other investment gains or losses.

Fair values of specific investments are determined as follows:

- Equities are valued at their year end quoted market prices as reported on recognized public securities exchange.
- Fixed-term investments are valued at their year end closing or bid price based on available public quotations from recognized dealers in such securities.
- Commercial paper, short-term notes and treasury bills and term deposits maturing within a year are valued at either their year end closing or bid price based on available quotations from recognized dealers in such securities, or cost plus accrued interest, which approximates fair value.
- Pooled fund units other than infrastructure are valued at their year end net asset value, as determined by the fund manager or administrator. For pooled funds holdings equity and fixed-income assets, these values represent the Board's proportionate share of underlying net assets at fair values determined using either quoted market prices or year end closing market prices or the average of the latest bid/ask prices based on available public quotations from recognized dealers in such securities. For pooled funds holding derivatives, cleared derivatives are valued at the closing price quoted by the relevant clearing house, and over-the-counter derivatives are valued using an industry standard model. Exchange-traded options are valued at the last sale price or the closing bid price for long positions and the closing ask price for short positions. For real estate pooled funds, these values represent the Board's proportionate share of the underlying net assets at fair values determined using independent appraisals, net of any liabilities against the fund assets.
- Infrastructure pooled funds are held through a separate corporate entity controlled by WorkSafeNB in which the Board does not have significant influence. Therefore, these infrastructure pooled funds are considered financial instruments and are valued at their most recent net asset value prior to year end, adjusted for any capital contributions or withdrawals between the net asset value date and year end, as determined by the fund manager or administrator. The net asset value represents the Board's proportionate share of the underlying net assets at fair values estimated using one or more methodologies, including discounted cash flows, multiples of earnings measures, and recent comparable transactions.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

3. Investments (cont'd)

- Forward foreign exchange contracts are valued at their net unrealized gain or loss, based on quoted market exchange rates at the balance sheet date. The Board has not designated the forward exchange contracts as a hedging instrument. Any changes in the fair market value of the instruments are recognized directly in the statement of comprehensive income.

	<u>2024</u>	<u>2023</u>
Investments		
Cash and short-term investments	\$ 6,222,302	\$ 4,642,554
Forward foreign exchange contracts	(2,220,116)	3,361,141
Real estate	36,580,395	30,075,872
Fixed term investments	41,003,868	36,393,120
Infrastructure	28,954,836	23,349,266
Equities	104,960,162	107,066,672
Global opportunistic	<u>38,367,380</u>	<u>21,821,272</u>
	<u>\$ 253,868,827</u>	<u>\$ 226,979,897</u>
Investment income		
Earned during the year	\$ 8,110,427	\$ 6,402,927
Realized investment gain (loss)	10,323,072	(3,218,305)
Change in unrealized investment gain	<u>9,827,867</u>	<u>15,377,610</u>
	<u>\$ 28,261,366</u>	<u>\$ 18,562,232</u>
Investment expenses		
External management fees	\$ 741,139	\$ 676,197
Management fees paid to WorkSafeNB	<u>130,950</u>	<u>101,743</u>
	<u>\$ 872,089</u>	<u>\$ 777,940</u>

Pooled funds

A number of the Board's portfolio investments are held through pooled funds. The fair value of the investments held through pooled funds is as follows:

	<u>2024</u>	<u>2023</u>
Conventional bonds	\$ 41,003,868	\$ 36,393,120
Non-North American equities	9,898,513	8,979,704
Real estate	36,580,395	30,075,872
Global opportunistic	38,367,380	21,821,272
Infrastructure	<u>28,954,836</u>	<u>23,349,266</u>
	<u>\$ 154,804,992</u>	<u>\$ 120,619,234</u>

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

3. Investments (cont'd)

Investment agreement

The Board has entered into an Investment Agreement (January 1995) for the management of its investment assets with those of WorkSafeNB. These financial statements report the Board's proportionate share of the investment assets held in the pooled fund which was 11.1% at December 31, 2024 (2023 – 10.0%). The Board pays a fee to WorkSafeNB for the administration of the combined investments.

Commitments

The Board, through its investment in pooled infrastructure and real estate funds, has committed to contribute investments in these funds, which may be drawn down over the next several years. Unfunded commitments as of December 31, 2024 are \$27.4 million (2023 - \$22.8 million).

4. Financial risk management

The Board has established policies for management of its investments. All of the Board's pooled investments are managed by independent, external investment managers. The compliance of these managers with the established policies is monitored on a regular basis. The pooled investments are managed to reduce investment risk by diversifying its portfolio among asset classes, industry sectors, geographic locations and individual securities. Further diversification is achieved by selecting investment managers with varying investment philosophies and styles. From time to time, in conjunction with WorkSafeNB, independent consultants are retained to advise on the appropriateness and effectiveness of its investment policies and practices.

The following sections describe the Board's financial risk exposure and related mitigation strategies.

Market risk

The Board invests in publicly traded equities listed on domestic and foreign exchanges, and bonds traded over the counter through broker dealers. These securities are affected by fluctuations in market prices. Such market changes are subject to economic factors and other fluctuations in domestic and global capital markets, as well as risks to issuers, which may affect the market value of individual securities. Policy guidelines have been established to ensure that the Board's investments are diversified by issuer, industry and geographic location.

The table below indicates the total exposure in each of the equity mandates within the Board's portfolio:

	<u>2024</u>	<u>2023</u>
Canada	\$ 30,659,293	\$ 34,609,650
United States	30,708,579	47,467,480
International equities	42,737,705	35,605,465
Real estate	36,580,395	30,075,871
Emerging markets	39,221,966	11,205,349

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

4. Financial risk management (cont'd)

The table below presents the effect of a change in value of equities held based on management estimates for each of the equity mandates in the Boards' portfolio:

Equities	2024			
	15%	5%	-5%	-15%
Change in market value				
Impact on fund balance				
Canadian	\$ 4,599,000	\$ 1,533,000	\$ (1,460,000)	\$ (3,999,000)
United States	4,606,000	1,535,000	(1,462,000)	(4,005,000)
International equities	6,411,000	2,137,000	(2,035,000)	(5,574,000)
Real estate	5,485,000	1,828,000	(1,741,000)	(4,770,000)
Emerging markets	5,883,000	1,961,000	(1,868,000)	(5,116,000)
Equities	2023			
	15%	5%	-5%	-15%
Change in market value				
Impact on fund balance				
Canadian	\$ 5,191,000	\$ 1,730,000	\$ (1,648,000)	\$ (4,514,000)
United States	7,120,000	2,373,000	(2,260,000)	(6,191,000)
International equities	5,341,000	1,780,000	(1,695,000)	(4,644,000)
Real estate	4,511,000	1,504,000	(1,432,000)	(3,923,000)
Emerging markets	1,681,000	560,000	(534,000)	(1,462,000)

Foreign currency risk

The Board has certain investments denominated in foreign currencies. Currency risk is the risk that the value of these investments will fluctuate due to changes in foreign exchange rates. For its U.S. and non-North American equities, the Board has adopted a policy to hedge 50% of its developed market foreign currency exposure using forward exchange contracts. Forward foreign exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract's inception. The fair value of these financial instruments would change in response to changes in the foreign exchange rates of the currencies involved in the contracts. The notional amounts in forward foreign exchange contracts are the contractual amounts on which payments are made. These notional amounts have been converted into Canadian dollars at the contractual exchange rates in effect at the inception of the contracts.

The Board has significant current exposure in the US dollar, the Euro, the Japanese Yen and the British Pound. Exposure to changes in these four currencies represents 91.28% of the Board's total exposure to developed market foreign currencies and 82.67% of the total foreign currency exposure including emerging markets. The Board has holdings of \$82,043,000 (2023 - \$74,054,000) in US dollar or 32.32% of the portfolio, \$23,093,000 (2023 - \$21,110,000) or 9.10% in the Euro, \$8,802,000 (2023 - \$6,035,000) or 3.47% in the Japanese Yen and \$9,968,000 (2023 - \$7,873,000) or 3.93% in the British Pound.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

4. Financial risk management (cont'd)

The table below presents the effects of a 15% appreciation in the Canadian dollar as compared to the US dollar, Euro, Japanese Yen and British Pound on the fund balance:

	<u>2024</u>	<u>2023</u>
CAD/USD	\$ (10,701,234)	\$ (9,659,200)
CAD/EURO	\$ (3,012,151)	\$ (2,753,517)
CAD/YEN	\$ (1,148,023)	\$ (787,157)
AD/POUND	\$ (1,300,127)	\$ (1,026,918)

At December 31, 2024, the notional value of outstanding forward foreign exchange contracts was \$99,974,492 (2023 - \$95,920,854). The fair value of these contracts was a (loss) gain of (\$2,220,116) (2023 - \$3,361,141). Unrealized (loss) gain on forward foreign exchange contracts of (\$5,851,258) (2023 - \$4,608,539) were included in investment income.

Inflation risk

Inflation risk is the risk that a general increase in price level may result in loss of future purchasing power for current monetary assets. To mitigate the effect of inflation on the Board's future liabilities, the portfolio holds inflation sensitive investments, such as real return bonds and real estate. Canadian real return bonds are indexed to the annual change in the Canadian Consumer Price Index.

Interest risk management

Interest rate risk is the risk that the value of a financial security will fluctuate due to changes in market interest rates. The Board's investment portfolio is exposed to interest rate risk from its holdings of fixed income securities. Fluctuations in interest rates are managed by varying the duration of the fixed income portfolio. The following table presents the remaining term to maturity of the Board's outstanding fixed term investments.

	<u>Remaining term to maturity</u>			Total 2024	Total 2023
	<u>Within 1 year</u>	<u>From 1 year to 5 years</u>	<u>Over 5 years</u>		
Fixed term investments (market value)	<u>\$ 328,031</u>	<u>\$ 15,786,489</u>	<u>\$ 24,889,348</u>	\$ 41,003,868	<u>\$ 36,393,120</u>

The average effective yield of these fixed term investments is 3.6% (2023 - 5.4%) per annum based on market value.

As of December 31, 2024, had the prevailing interest rate changed by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, the value of the fixed term investments would have increased or decreased by \$2,969,000 (2023 - \$2,289,000) or approximately 7.2% (2023 - 6.3%) of their value.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

4. Financial risk management (cont'd)

Credit risk management

Credit risk on fixed-term or money market investments or forward foreign exchange contracts arises from the possibility that the counter party to an instrument fails to meet its obligation to the Board. The maximum exposure to credit risk is determined by the fair value of these financial instruments. The Board invests in money market instruments that consist primarily of short-term debt and money market securities issued or guaranteed by the federal or provincial governments of Canada and Canadian corporations. Counter parties to forward foreign exchange contracts must have a credit rating of at least AA-. As at December 31, 2024, the aggregate amount of fixed income securities with counterparty ratings of BBB was \$4,925,391 (2023 - \$14,195,142).

The Board is also exposed to credit risk through its trade receivables. The Board mitigates this risk through a regular monitoring process. Credit risk is mitigated due to the large number of customers and their dispersion across geographic areas and various industries. Allowance for doubtful accounts is reviewed at each balance sheet date. The Board updates its estimates of allowances for doubtful accounts based on customer history.

Fair value hierarchy

In compliance with IFRS 7, Financial Instruments – Disclosures, the Board has categorized its assets and liabilities that are carried at fair value on a recurring basis, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and liabilities measured at fair value are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs or inputs that are derived principally for or corroborated with observable market data through correlation or other means.

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs or the use of broker quotes. These unobservable inputs reflect the Board's assumptions about the assumptions market participants would use in pricing the assets or liabilities.

	2024			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 6,222,302	\$ -	\$ -	\$ 6,222,302
Investments				
Forward foreign exchange contracts	-	(2,220,116)	-	(2,220,116)
Real estate	-	24,813,003	11,767,392	36,580,395
Fixed term	-	41,003,868	-	41,003,868
Infrastructure	-	-	28,954,836	28,954,836
Equities	-	143,327,542	-	143,327,542
	<u>\$ 6,222,302</u>	<u>\$ 206,924,297</u>	<u>\$ 40,722,228</u>	<u>\$ 253,868,827</u>

During 2024 and 2023, there were no significant transfers of investments between level 1 and level 2.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

4. Financial risk management (cont'd)

	2023			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 4,642,554	\$ -	\$ -	\$ 4,642,554
Investments				
Forward foreign exchange contracts	-	3,631,141	-	3,631,141
Real estate	-	22,763,478	7,312,394	30,075,872
Fixed term	-	36,393,120	-	36,393,120
Infrastructure	-	-	23,349,266	23,349,266
Equities	-	128,887,944	-	128,887,944
	<u>\$ 4,642,554</u>	<u>\$ 191,675,683</u>	<u>\$ 30,661,660</u>	<u>\$ 226,979,897</u>

The following summarizes the changes in the level 3 investments for the year:

	<u>2024</u>	<u>2023</u>
Balance at beginning of year	\$ 30,661,660	\$ 29,040,554
Purchase of level 3 investments	6,198,905	6,732,763
Investment income	1,632,748	1,374,935
Return of capital	(2,499,029)	(1,920,461)
Unrealized gain (loss) recognized	<u>4,727,944</u>	<u>(4,566,131)</u>
Balance at end of year	<u>\$ 40,722,228</u>	<u>\$ 30,661,660</u>

There are eight investments classified as level 3:

- (1) A limited partnership interest in a fund investing in global infrastructure assets with a market value of \$5.2M (2023 - \$4.7M). This is a closed-end fund with no active market for its units and no published net asset value as at December 31, 2024 and is therefore classified as level 3 investments in the fair market hierarchy. This fund has a 12-year life that commenced on October 30, 2013. The general partner has the option to extend the fund's life by 2 years;
- (2) A limited partnership interest in a fund investing in global infrastructure assets with a market value of \$14.4M (2023 - \$12.0M). This is an open-ended fund that allows quarterly redemptions at net asset value, but with some restrictions. It is classified as a level 3 investment in the fair value hierarchy;
- (3) A limited partnership interest in a fund investing in European real estate with a market value of \$799K (2023 - \$1.5M). This is a closed-end fund with no active market for its units and no published net asset value as of December 31, 2024 and is therefore classified as a level 3 investment in the fair value hierarchy. This fund has a 9-year life that commenced on August 22, 2014. During the year, the second one-year extension clause was exercised with the new end date being August 22, 2025;
- (4) A limited partnership interest in a fund investing in European real estate with a market value of \$4.2M (2023 - \$4.4M). This is a closed-end fund with no active market for its units and no published net asset value as of December 31, 2024 and is therefore classified as a level 3 investment in the fair value hierarchy. This fund has a 10-year life that commenced on March 29, 2018;

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

4. Financial risk management (cont'd)

- (5) A limited partnership interest in a fund investing in global infrastructure assets with a market value of \$4.4M (2023 - \$3.4M). This is a closed-end fund with no active market for its units and no published net asset value as of December 31, 2024, and is therefore classified as a level 3 investment in the fair value hierarchy. The fund has a 12-year life commenced on May 10, 2019. The general partner has the option to extend the fund's life by two years;
- (6) A limited partnership interest in a fund investing in European real estate with a negative market value of \$4.0M (2023 - \$250K). This is a closed-end fund with no active market for its units and no published net asset value as of December 31, 2024, and is therefore classified as a level 3 investment in the fair value hierarchy. This fund has a 10-year life that commenced on December 03, 2021;
- (7) A limited partnership interest in a fund investing in US real estate with a market value of \$2.7M (2023 -\$1.2M). This is a closed-end fund with no active market for its units and no published net asset value as of December 31, 2024, and is therefore classified as a level 3 investment in the fair value hierarchy. This fund has a 8-year life that commenced on March 29, 2024. The general partner has the option to extend the fund's life by two years;
- (8) A limited partnership interest in a fund investing in global infrastructure assets with a market value of \$5.0M (2023 - \$3.3M). This is a closed-end fund with no active market for its units and no published net asset value as of December 31, 2024 and is therefore classified as a level 3 investment in the fair value hierarchy. This fund has a 12-year life that commenced November 30, 2023. The general partner has the option to extend the fund's life with two one-year extensions.

Liquidity risk

Liquidity risk is the risk that the Board will not be able to meet all cash outflow obligations as they come due. The Board mitigates this risk by monitoring cash activities and expected outflows. The Board's current liabilities arise as claims are made. The Board does not have material liabilities that can be called unexpectedly at the demand of a lender or claimant. The Board has no material commitments for capital expenditure and there is no need for such expenditures in the normal course of operations. Claim payments are funded by current operating cash flow including investment income.

There have been no significant changes from the previous year in the exposure to risk or policies, procedure and methods used to measure the risk.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

5. Property and equipment

Accounting policy

Property and equipment are reported at cost less subsequent depreciation and impairment losses. The cost of property and equipment includes expenditures that are directly attributable to their acquisition or construction and any other cost directly attributable to the installation and decommissioning of the asset. Property and equipment are depreciated over their estimated lives on the straight line basis. Assets are depreciated at 50% of the applicable rate in the year of acquisition. When parts of an item of property and equipment have materially different useful lives or patterns of benefit consumption, they are accounted for separately (i.e., as major components). The rates used are as follows:

Buildings and components	10 to 40 years, straight line
Furniture and fixtures	10 years, straight line
Leasehold improvements	10 years, straight line
Computer equipment	5 years, straight line

Material residual value estimates and estimates of useful life are updated as required, but at least annually.

IAS 36, Impairment of Assets, requires an entity to test assets for impairment if indications of impairment exist. Based on an analysis of cash flows, the Board has established that the appropriate cash generating unit for impairment review is the entire entity. As the Board has the statutory power under the Act to increase premiums and/or impose levies to ensure full funding unto the foreseeable future, impairment at the entity level is remote. As at December 31, 2024, management conducted an impairment review at the entity level, which confirmed that there were no significant indicators of impairment which would have a material impact on the Board's ability to generate future economic benefits from its operating non-financial assets.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

5. Property and equipment (cont'd)

	Land	Buildings	Furniture, Fixtures & Leaseholds	Computer Equipment	2024 Total
Gross carrying amount					
Balance January 1, 2024	\$ 368,460	\$ 4,913,862	\$ 863,490	\$ 1,165,102	\$ 7,310,914
Additions	-	202,946	123,963	147,925	474,834
Disposals	-	-	(40,387)	(56,163)	(96,550)
Balance December 31, 2024	<u>368,460</u>	<u>5,116,808</u>	<u>947,066</u>	<u>1,256,864</u>	<u>7,689,198</u>
Depreciation and impairment					
Balance January 1, 2024	-	(2,096,798)	(749,319)	(893,603)	(3,739,720)
Disposal	-	-	40,387	51,404	91,791
Depreciation	-	(201,885)	(44,535)	(108,000)	(354,420)
Balance December 31, 2024	<u>-</u>	<u>(2,298,683)</u>	<u>(753,467)</u>	<u>(950,199)</u>	<u>(4,002,349)</u>
Carrying amount Dec 31, 2024	<u>\$ 368,460</u>	<u>\$ 2,818,125</u>	<u>\$ 193,599</u>	<u>\$ 306,665</u>	<u>\$ 3,686,849</u>

	Land	Buildings	Furniture & Fixtures	Computer Equipment	2023 Total
Gross carrying amount					
Balance January 1, 2023	\$ 368,460	\$ 4,224,076	\$ 859,561	\$ 1,083,049	6,535,146
Additions	-	689,786	3,929	98,435	792,150
Disposals	-	-	-	(16,382)	(16,382)
Balance December 31, 2023	<u>368,460</u>	<u>4,913,862</u>	<u>863,490</u>	<u>1,165,102</u>	<u>7,310,914</u>
Depreciation and impairment					
Balance January 1, 2023	-	(1,914,030)	(692,089)	(810,426)	(3,416,545)
Disposals	-	-	-	16,201	16,201
Depreciation	-	(182,768)	(57,230)	(99,378)	(339,376)
Balance December 31, 2023	<u>-</u>	<u>(2,096,798)</u>	<u>(749,319)</u>	<u>(893,603)</u>	<u>(3,739,720)</u>
Carrying amount Dec 31, 2023	<u>\$ 368,460</u>	<u>\$ 2,817,064</u>	<u>\$ 114,171</u>	<u>\$ 271,499</u>	<u>\$ 3,571,194</u>

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

6. Intangible assets

Accounting policy

Computer software development expenditure is capitalized only if the directly related costs (both internal and external) can be measured reliably, the product or process is technically feasible, future economic benefits are probable and the Board has the intention and sufficient resources to complete development and to use the asset. Computer software assets are derecognized when these factors no longer exist. The capitalized expenditure includes the direct cost of materials and labour, but not administrative costs, including training. Other development expenditures are expensed as incurred if they do not meet the prescribed capitalization criteria. Similarly, costs associated with maintaining computer software programs in a functional condition, as originally intended, are expensed as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

The Board's intangible assets are comprised of computer software developed internally or acquired through third party vendors and customized as necessary. These costs are accounted for using the cost model whereby capitalized costs are amortized on a straight line or declining balance basis over their estimated useful lives, as these assets are considered finite. Residual values and useful lives are reviewed at each reporting date. In addition, they are subject to impairment testing.

Internally developed software is amortized on a straight line basis over 10 years for certain software and 3 years for other smaller software programs.

Computer software	<u>2024</u>	<u>2023</u>
Gross carrying amount		
Balance at January 1	\$ 6,935,906	\$ 6,785,094
Addition, separately acquired	<u>97,798</u>	<u>150,812</u>
Balance at December 31	<u>7,033,704</u>	<u>6,935,906</u>
Amortization and impairment		
Balance at January 1	(5,671,186)	(5,447,655)
Amortization	<u>(219,598)</u>	<u>(223,531)</u>
Balance at December 31	<u>(5,890,784)</u>	<u>(5,671,186)</u>
Carrying amount December 31	<u>\$ 1,142,920</u>	<u>\$ 1,264,720</u>

7. Bank indebtedness

The Board has a \$1,000,000 operating line of credit, bearing interest at prime less 0.25%, unsecured, of which \$nil was used at December 31, 2024.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

8. Leases

Accounting policy

The Board assesses whether a contract is or contains a lease, at inception of the contract. The Board recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Board recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Board uses its incremental borrowing rate of prime less 0.25% which is 5.20% as of December 31, 2024.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. The Board amortizes the lease on a straight-line basis over the 10-year lease term.

Right of use asset:

	<u>Office Space</u>
<u>Gross Amount</u>	
At December 31, 2023	\$ -
Acquisitions	769,975
Disposals	-
At December 31, 2024	<u>\$ 769,975</u>
<u>Accumulated Depreciation</u>	
At December 31, 2023	\$ -
Depreciation	-
Disposals	-
At December 31, 2024	<u>\$ -</u>
<u>Carrying Amount</u>	
At December 31, 2024	<u>\$ 769,975</u>

Lease liability:

Future minimum lease payments are as follows:

	<u>Minimum lease payments due</u>					
	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>Subsequent years</u>
At December 31, 2024						
Lease payments	\$ 92,800	\$ 92,800	\$ 92,800	\$ 98,600	\$ 98,600	\$ 522,000
Finance charges	-	4,587	8,947	18,097	22,076	173,918
Net present values	\$ 92,800	\$ 88,213	\$ 83,853	\$ 80,503	\$ 76,524	\$ 348,082

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

9. Payables and accruals

	<u>2024</u>	<u>2023</u>
Trade and other payables	\$ 1,739,286	\$ 1,557,664
Accrued staff salaries	452,931	385,806
Accrued vacation pay	<u>337,699</u>	<u>289,994</u>
	<u>\$ 2,529,916</u>	<u>\$ 2,233,464</u>

10. Insurance service expenses

The breakdown of the insurance service expenses by major product lines is presented below:

	<u>2024</u>	<u>2023</u>
Claims and benefits (Note 12)	<u>\$ 25,592,000</u>	<u>\$ 25,228,000</u>
Administrative costs:		
Building operating costs	204,980	250,163
Business transformation	257,083	-
Communications, printing and supplies	252,583	262,825
Computer maintenance	530,295	286,389
Depreciation	574,018	562,907
Dues and fees	132,879	105,517
Insurance	104,991	106,131
Interest and bank charges	273,382	237,986
Office supplies and miscellaneous	114,195	55,990
Postage	82,838	87,608
Professional development	104,046	70,392
Professional fees	771,449	608,795
Salaries		
Board members	58,300	60,362
Staff members	7,256,112	6,479,977
Benefits	1,313,778	1,284,350
Retirement benefits	197,491	185,622
Telephone	83,699	83,190
Travel and meetings	244,050	139,671
Appeals tribunal	92,165	114,903
Employer advisor program	174,685	153,190
Worker advisor program	<u>225,088</u>	<u>175,770</u>
	<u>13,048,107</u>	<u>11,311,738</u>
Less: allocation to Claims and benefits	<u>(1,969,000)</u>	<u>(1,763,000)</u>
	<u>11,079,107</u>	<u>9,548,738</u>
	<u>\$ 36,671,107</u>	<u>\$ 34,776,738</u>
Represented by:		
Insurance service expense	33,448,606	31,831,777
General and operating expenses	<u>3,222,501</u>	<u>2,944,961</u>
	<u>\$ 36,671,107</u>	<u>\$ 34,776,738</u>

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

11. Employee benefits

Accounting policy

Permanent employees of the Board participate in a defined benefit pension plan sponsored by the Province of Prince Edward Island. As these multi-employer plans meet the accounting requirements for treatment as defined contribution plans, the current year employer contributions are accounted for as current pension expense. The cost of retirement pay benefits earned by employees is actuarially determined using the projected unit credit method prorated on service. Benefits are projected with management's best estimate of salary escalations to retirement and then pro-rated based on service. Remeasurement changes in insurance contract liabilities, composed of actuarial changes in assumptions and experience gains and losses, are recognized in other comprehensive income.

Short-term benefits

The Board's short-term benefits for qualified active employees include base salary, compensated absences, group life insurance, dental and medical coverage.

Pension plan

The Board and its employees participate in a multi-employer contributory defined benefit pension plan, administered by the Province of Prince Edward Island under the Prince Edward Island Public Sector Pension Plan. The Prince Edward Island Public Sector Pension Plan provides pensions to employees of the Provincial Government and certain Crown Corporations and agencies. The average salary used to determine pension benefits is calculated using an average of all earnings indexed to the year of retirement. The age at which an unreduced pension is available will move from 60 to 62 and the years of service will move from 30 to 32 for service after 2018. Pension benefits indexed are based on the financial health of the fund. The plans are similar to state plans as defined in IAS 19 whereby they are established by legislation to provide retirement benefits for eligible provincial employees. State plans share similar characteristics as multi-employer plans and are treated as defined contribution plans under IAS 19. For these plans, the Board has no further payment obligations once the contributions have been paid. Since sufficient information is not readily available to account for the Board's participation in the plan using defined benefit pension plan accounting, these financial statements have been prepared using accounting rules for defined contribution pension plans. The current year expense for this pension plan is \$566,833 (2023 - \$520,907). As the Board maintains no obligation to cover funding deficiencies within the plan, should any exist, there are no provisions to be recorded for future funding obligations.

At March 31, 2024, the Prince Edward Island Public Sector Pension Plan reported that the pension plan was fully funded.

Retirement pay benefits

The Board provides a retirement pay benefit equal to one weeks pay for each year of service, subject to a maximum benefit equal to 26 weeks pay. The retirement pay benefit is payable upon retirement. Unionized employees qualify at retirement if they have accrued 10 years of service and attained age 55. Non-unionized employees qualify at retirement if they have accrued 5 years of service and attained age 55, accrued 34 years of service, or accrued 5 years of service and die or become disabled. The significant actuarial assumptions adopted in measuring the Board's accrued retirement pay benefits obligations are a discount rate of 4.50% (2023 - 4.60%) and a rate of compensation increase of 3.5%. The retirement pay benefits liability has been estimated to equal \$1,775,800 (2023 - \$1,650,700) based on the last actuarial extrapolation as of December 31, 2024.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

11. Employee benefits (cont'd)

Other information about the Board's retirement pay benefits is as follows:

	<u>2024</u>	<u>2023</u>
Opening retirement pay benefits	\$ 1,650,700	\$ 1,617,600
Changes in retirement pay benefits	110,000	98,800
Change in discount rate	<u>15,100</u>	<u>(65,700)</u>
Ending retirement pay benefits	<u>\$ 1,775,800</u>	<u>\$ 1,650,700</u>

Employee benefits risks

The Board's defined benefit plan is indirectly exposed to economic risks with respect to measurement risk from assumptions based on economic factors, such as discount rates affected by volatile bond markets. Benefit obligations are exposed to uncertainty of future economic conditions, primarily inflation risk due to uncertainty of the timing of the payments.

Demographic factors affect current and future benefit costs with respect to the amount and time horizon of expected payments due to such factors as workforce average age and earnings levels, attrition and retirement rates.

The Board is also exposed to funding risk in the multi-employer plans arising from legislative changes affecting eligibility for and amount of pension and related benefits and performance of plan assets affected by investment policies set by the government. Because these plans are governed by legislation rather than contract, there is little flexibility for participants with respect to withdrawal from the plan, plan wind up or amendments, and funding requirements.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

12. Insurance contract liabilities

The Board issues workers compensation benefits to employers and provides benefits to employees who are injured at work. The Board has considered this to be one product group with no additional disaggregation. The insurance contract liabilities represent the actuarial present value of all future fulfillment cashflows expected to be made for claims which occurred in the current fiscal year or in any prior year. The insurance contract liabilities include provision for all benefits provided by current legislation policies and administrative practices in respect of existing claims.

The Board believes that the amount provided for insurance contract liabilities as at December 31, 2024, is adequate, recognizing that actuarial assumptions as disclosed below may change over time to reflect underlying economic trends. When they do, it is possible to cause a material change in the actuarial present value of the future payments.

Insurance contract liabilities as at December 31, 2024, have been independently valued by the Board's external actuary.

Insurance contract liabilities include a provision for all benefits provided by current legislation, Board policies, and administrative practices. These liabilities also include a provision for future expenses of administering those benefits. Insurance contract liabilities do not include a provision for benefits costs of self-insured employers.

Since the insurance contract liabilities of the Board are of a long-term nature, the actuarial assumptions and methods used to calculate the reported insurance contract liabilities are based on considerations of future expenses over the long-term. As the determination of these liabilities requires assumptions about economic and other events that may occur many years in the future, but which are based on best information as at the valuation date, a significant degree of professional judgement must be exercised in developing these assumptions. Accordingly, changes in future conditions within one year of the financial statement date could require a material change in the recognized amounts.

Key actuarial assumptions

Important components of the insurance contract liabilities are long-term in nature, meaning that many claims continue in payment for many years following the accident.

Management makes significant estimates and judgments in respect of certain liability amounts disclosed in the financial statements and the discount rates used to calculate the present value of future benefit payments. These estimates and judgments are continually being evaluated and are based on historical experience, as well as enhancements to actuarial modeling techniques.

The key areas of significant estimates and judgments and the methodologies used to determine key assumptions are set out below.

The estimation of outstanding insurance contract liabilities is based largely on the assumption that past developments are an appropriate predictor of the future and involves a variety of actuarial techniques that analyze experience, trends, and other relevant factors. The process commences with the actuarial projection of the future claims payments and administration costs incurred to the reporting date. The various payment codes of the Board are grouped into several benefit categories and analyzed separately.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

12. Insurance contract liabilities (cont'd)

Modeling approaches are used to analyze and project the various benefit types. These approaches fall into three broad categories, which are as follows:

- Payments per claim for active long-term wage loss, pension and survivor claims;
- Projected payments based on past payment patterns for short-term disability, health care and the first seven years for long-term disability awards; and
- Estimated average benefit payments per claim for projected future long-term wage loss and physical impairment awards.

Projected future claims payments and associated administration costs are obtained by examining the results from the above methods. This projection is made without bias toward over or under estimation. As such, the resulting estimate is a net central estimate of outstanding insurance contract liabilities that has an approximately equal chance of proving adequate as not.

The projected future claims payments are converted to inflated values, considering assumptions about future inflation. The present value of this liability is then calculated, by discounting the inflated cash flows to allow for future returns on the underlying assets using appropriate discount rates. Both implicit and explicit assumptions are made for future inflation. For the first fifteen years of the projection period for short-term disability, health care and the first seven years for long-term disability awards, the future inflation is implied in the development factors. Explicit future inflation assumptions are used for all other liability estimates.

The table below presents key assumptions used to determine the insurance contract liabilities.

	<u>2024</u>	<u>2023</u>
Discount rate	4.70%	4.85%
Increase in inflation	2.25%	2.25%
Future administration	6.50%	6.50%
Latent occupational diseases	7.50%	7.50%

Process used to determine assumptions

A description of the processes used to determine these assumptions is provided below:

General statement

Assumptions are formulated to be consistent with the funding and investment policies adopted by the Board. Insurance contract liabilities are valued based on the primary assumption that the system will be in operation for the very long-term. Hence, the focus is on long-term trends as opposed to short-term fluctuations around those trends.

Future awards liabilities

For the purposes of projecting future cash flows for the future award liabilities, other than those for future extended wage loss awards, the calculation uses a weighted average of payments made over the 2022 to 2024 period. The weightings are 17% of 2022, 33% of 2023, and 50% of 2024, all adjusted to constant 2024 dollars. In the case of medical aid and hospital expenses, certain large individual cases that are expected to require long-term care have been removed from historical data. For these cases, the ongoing payments have been estimated based on an analysis of the individual file.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

12. Insurance contract liabilities (cont'd)

Pension in pay

The liabilities in respect of pensions and extended wage loss awards, including survivor benefits that are already in payment, are included in this category. Cash flows, in respect of these categories have been projected on an individual claimant basis using mortality as the only decrement. No provision for termination of benefits from other causes such as recoveries has been made. To the extent such terminations occur, there will be a gain.

Future extended wage loss awards

Included in the valuation is a provision for future extended wage loss awards. A claims run off table has been developed based in part on the Board's limited experience with respect to wage loss claims. This table is used to predict the emergence of future extended wage loss claims. The table was developed using a run off table used by another Board with legislation similar to Prince Edward Island's with experience modifications noted in Prince Edward Island as compared to the other jurisdiction.

Future administration

When a claim occurs, it triggers an obligation to provide claims management, maintenance and support in terms of paying the various providers of health care services and compensating workers for lost wages for as long as the claim is open. The future administration expense liability is intended to provide a reasonable allowance for this obligation. A detailed review of future administration expenses is conducted periodically. In this review an estimate is made of the portion of operating expenses that can be attributed to claims maintenance, including a proportionate share of overhead expenses. Based on this review, a liability for future administration expenses of 6.5% of the total benefits liability is included in the liability estimate (before the provision for latent occupational disease). A 7.5% provision for latent occupational disease claims expected to be diagnosed after December 31, 2024 has been made.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

12. Insurance contract liabilities (cont'd)

The reconciliation of the net asset or liability for insurance contracts issued, which shows the liabilities for remaining coverage and the liability for incurred claims is as follows:

	Liabilities for remaining coverage		Liabilities for	2024
	Excluding loss component	Loss component	incurred claims Present value of future cash flows	
				Total
Insurance contract liabilities, beginning of year	\$ -	\$ -	\$ 170,652,000	\$ 170,652,000
Insurance contract assets, beginning of year	(2,617,063)	-	-	(2,617,063)
Net Insurance contract liability, at January 1	\$ (2,617,063)	\$ -	\$ 170,652,000	\$ 168,034,937
Insurance revenue	\$ (43,542,491)	\$ -	\$ -	\$ (43,542,491)
Insurance Service expenses:				
Claims costs - current year	-	-	27,599,000	27,599,000
Claims costs - prior year	-	-	(1,930,000)	(1,930,000)
Insurance admin expenses	-	-	7,553,258	7,553,258
Losses on onerous contracts and reversals of losses	-	-	-	-
Changes to liabilities for incurred claims	-	-	226,348	226,348
Insurance service result	\$ (43,542,491)	\$ -	\$ 33,448,606	\$ (10,093,885)
Insurance finance (income) expense	(105,681)	-	9,906,000	9,800,319
Total changes in the statement of operations	\$ (43,648,172)	\$ -	\$ 43,354,606	\$ (293,566)
Cash flows				
Premiums received	43,119,029	-	-	43,119,029
Claims and other expenses paid	-	-	(40,116,606)	(40,116,606)
Insurance acquisition cash flows	-	-	-	-
Total cash flows	\$ 43,119,029	\$ -	\$ (40,116,606)	\$ 3,002,423
Closing insurance contract liabilities	-	-	173,890,000	173,890,000
Closing insurance contract assets	(3,146,206)	-	-	(3,146,206)
Net Insurance contract liability, end of year	\$ (3,146,206)	\$ -	\$ 173,890,000	\$ 170,743,794

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

12. Insurance contract liabilities (cont'd)

	Liabilities for remaining coverage		Liabilities for incurred claims		2023
	Excluding loss component	Loss component	Present value of future cash flows		Total
Insurance contract liabilities, beginning of year	\$ -	\$ -	\$ 161,115,000	\$	161,115,000
Insurance contract assets, beginning of year	(2,616,045)	-	-		(2,616,045)
Net Insurance contract liability, at January 1	\$ (2,616,045)	\$ -	\$ 161,115,000	\$	158,498,955
Insurance revenue	\$ (42,273,313)	\$ -	\$ -	\$	(42,273,313)
Insurance Service expenses:					
Claims costs - current year	-	-	25,213,000		25,213,000
Claims costs - prior year	-	-	(412,000)		(412,000)
Insurance admin expenses	-	-	6,603,777		6,603,777
Losses on onerous contracts and reversals of losses	-	-	-		-
Changes to liabilities for incurred claims	-	-	427,000		427,000
Insurance service result	\$ (42,273,313)	\$ -	\$ 31,831,777	\$	(10,441,536)
Insurance finance (income) expense	(95,149)		13,190,000		13,094,851
Total changes in the statement of operations	\$ (42,368,462)	\$ -	\$ 45,021,777	\$	2,653,315
Cash flows					
Premiums received	42,367,444	-	-		42,367,444
Claims and other expenses paid	-	-	(35,484,777)		(35,484,777)
Insurance acquisition cash flows	-	-	-		-
Total cash flows	\$ 42,367,444	\$ -	\$ (35,484,777)	\$	6,882,667
Closing insurance contract liabilities	-	-	170,652,000		170,652,000
Closing insurance contract assets	(2,617,063)	-	-		(2,617,063)
Net Insurance contract liability, end of year	\$ (2,617,063)	\$ -	\$ 170,652,000	\$	168,034,937

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

12. Insurance contract liabilities (cont'd)

An analysis of the components of and changes in liability for incurred claims sub categories is as follows:

						<u>2024</u>	<u>2023</u>
	Temporary wage loss	Pension and extended wage loss	Health care	Rehabilitation	Administration	<u>Total</u>	<u>Total</u>
Balance, beginning of year	\$11,375,000	\$ 93,325,000	\$ 42,817,000	\$ 1,540,000	\$ 9,689,000	\$ 158,746,000	\$ 149,874,000
Expected increase	701,000	4,719,000	2,240,000	79,000	503,000	8,242,000	8,501,000
Interest cost	80,000	814,000	661,000	7,000	102,000	1,664,000	4,689,000
Legislative changes	-	-	-	-	-	-	-
Assumption changes	-	-	-	-	-	-	-
Experience (gains) losses	<u>4,919,000</u>	<u>(8,254,000)</u>	<u>775,000</u>	<u>748,000</u>	<u>(118,000)</u>	<u>(1,930,000)</u>	<u>(412,000)</u>
	17,075,000	90,604,000	46,493,000	2,374,000	10,176,000	166,722,000	162,652,000
Costs incurred	<u>8,475,000</u>	<u>8,773,000</u>	<u>7,910,000</u>	<u>472,000</u>	<u>1,666,000</u>	<u>27,296,000</u>	<u>24,975,000</u>
	25,550,000	99,377,000	54,403,000	2,846,000	11,842,000	194,018,000	187,627,000
Payments made	<u>(10,812,000)</u>	<u>(9,611,000)</u>	<u>(9,083,000)</u>	<u>(785,000)</u>	<u>(1,969,000)</u>	<u>(32,260,000)</u>	<u>(28,881,000)</u>
	<u>\$14,738,000</u>	<u>\$ 89,766,000</u>	<u>\$ 45,320,000</u>	<u>\$ 2,061,000</u>	<u>\$ 9,873,000</u>	<u>161,758,000</u>	158,746,000
Latent occupational diseases						<u>12,132,000</u>	<u>11,906,000</u>
Balance, end of year						<u>\$ 173,890,000</u>	<u>\$ 170,652,000</u>

Claims and benefits per Note 10 include the following:

	<u>2024</u>	<u>2023</u>
Claims and administrative costs incurred	\$ 27,296,000	\$ 24,975,000
Experience gains	(1,930,000)	(412,000)
Change in latent occupational disease costs	<u>226,000</u>	<u>665,000</u>
	<u>\$ 25,592,000</u>	<u>\$ 25,228,000</u>

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

12. Insurance contract liabilities (cont'd)

Liabilities for remaining coverage include the following:

	<u>2024</u>	<u>2023</u>
Assessment receivables	\$ 2,794,869	\$ 2,403,806
Less: allowance for doubtful accounts	(500,263)	(337,086)
Accrued assessments	<u>851,600</u>	<u>550,343</u>
	<u>\$ 3,146,206</u>	<u>\$ 2,617,063</u>

Insurance risks

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that the Board requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount.

The Board operates on a break-even basis to cover the costs of the system and does not require profit or compensation for bearing non-financial risk surrounding the uncertainty of the timing and amount of future claims cash flows. Therefore, actuarial assumptions used in projecting future claims cash flows (for purposes of determining liability for remaining coverage and liability for incurred claims) will be determined on a best estimate basis, implying a nil risk adjustment, and corresponds with a 50% confidence level.

Managing insurance risk

The Board Commission has an objective to control insurance risk, thus reducing the volatility of operating results. In addition to the inherent uncertainty of insurance risk, this can lead to significant variability in the experience gain or loss. The Board's operating results are affected by market factors, particularly movements in investment values.

Key aspects of processes established to mitigate insurance risks include:

- The maintenance and use of management information systems, which provide data on the risks to which the Board is exposed to at any point in time;
- Actuarial models, using information from the management information system, are used to monitor claims patterns and calculate premiums. Experience and statistical methods are used as part of the process; and
- The mix of asset in which the Board invests is determined to achieve a long-term rate of return that is sufficient to fund the liability for incurred claims. The management of assets and liabilities is closely monitored to attempt to match assets with the expected pattern of claim payments.

The terms and conditions attached to the Acts affect the level of insurance risk accepted by the Board. All insurance transactions entered into are in the same standard form and are subject to substantially the same terms and conditions under the Acts.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

12. Insurance contract liabilities (cont'd)

Claims risk

Because there is no statutory limit on the benefit amount payable or the duration of the risk exposure related to work related injuries, the Board bears risk with respect to its future claims costs, which could have material implications for liability estimation. In determining the Board's liabilities for incurred claims, a primary risk is that the actual fulfillment cashflows may exceed the estimation of the amount of the liabilities. This may occur due to changes in claim reporting patterns, frequency and/or size of claim payments or duration of claims.

Compensable injuries and benefits payable may also change due to legislation or policy changes. With potentially long claim run off periods, inflation is also a factor because future costs could escalate at a faster rate than expected.

Sensitivity of actuarial assumptions

The insurance contract liabilities are determined by using many actuarial assumptions. The two most significant assumptions are the gross rate of return and inflation rate. The liability estimates are highly sensitive to small changes in these assumptions. The following table presents the sensitivity of the liabilities to the following change in the gross rate of return and inflation rate:

	<u>2024</u>	<u>2023</u>
1% Decrease in gross rate of return	\$ 13,029,000	\$12,451,000
1% Increase in inflation rate	\$ 12,387,000	\$11,691,000

The table below gives the detail of the assets and liabilities included in the insurance contract liabilities for the years that the assets and liabilities were originated.

	2024			2023		
	Assets \$	Liabilities \$	Net \$	Assets \$	Liabilities \$	Net \$
Insurance contracts issued						
2024	\$ 3,146,206	\$ (23,824,000)	\$ (20,677,794)	-	-	-
2023	-	(16,074,000)	(16,074,000)	\$2,617,063	(21,876,000)	\$ (19,258,937)
2022	-	(12,579,000)	(12,579,000)	-	(15,385,000)	(15,385,000)
2021	-	(9,912,000)	(9,912,000)	-	(12,132,000)	(12,132,000)
2020	-	(8,733,000)	(8,733,000)	-	(9,414,000)	(9,414,000)
2019	-	(9,170,000)	(9,170,000)	-	(9,309,000)	(9,309,000)
2018	-	(7,296,000)	(7,296,000)	-	(7,668,000)	(7,668,000)
2017	-	(5,619,000)	(5,619,000)	-	(6,094,000)	(6,094,000)
2016	-	(3,768,000)	(3,768,000)	-	(4,272,000)	(4,272,000)
2015	-	(3,701,000)	(3,701,000)	-	(3,853,000)	(3,853,000)
2014 and previous years	-	(73,214,000)	(73,214,000)	-	(80,649,000)	(80,649,000)
Total insurance contracts issued	\$ 3,146,206	\$ (173,890,000)	\$ (170,743,794)	\$2,617,063	\$ (170,652,000)	\$ (168,034,937)

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

12. Insurance contract liabilities (cont'd)

The following table estimates the expected amounts and timing of future benefit payments for the provision of outstanding claims. The expected timing of payments from the provision for outstanding claims involves considerable uncertainty. The projections presented below do not include a provision for future administration expenses or latent occupational diseases.

Expected timing of future payment for outstanding claims:

	2024	2023
	%	%
Up to 1 year	10%	10%
Over 1 year and up to 5 years	27%	27%
Over 5 years and up to 10 years	24%	25%
Over 10 years	39%	38%
Total	100%	100%

Claims development

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Board's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims, the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The table that follows presents the development of claims payments and the estimated ultimate cost of claims for the claim years 2015 to 2024. The upper half of the table shows the cumulative amounts paid or estimate to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

12. Insurance contract liabilities (cont'd)

	Year of estimate	Accident year										Total	
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024		
Estimated total cash flow (including past and future cash flows)	2015	\$ 32,825,000											
	2016	28,898,000	\$ 32,894,000										
	2017	26,011,000	30,869,000	\$ 32,645,000									
	2018	22,432,000	27,577,000	29,526,000	\$ 31,569,000								
	2019	20,618,000	25,388,000	30,306,000	31,161,000	\$ 35,908,000							
	2020	19,732,000	22,300,000	27,207,000	29,577,000	34,912,000	\$ 34,918,000						
	2021	19,012,000	20,413,000	24,342,000	25,886,000	32,130,000	28,734,000	\$ 34,575,000					
	2022	19,439,000	19,797,000	23,162,000	24,473,000	28,805,000	24,180,000	28,199,000	\$ 32,637,000				
	2023	19,679,000	20,311,000	23,573,000	24,537,000	28,455,000	23,404,000	27,254,000	30,841,000	\$ 35,158,000			
	2024	19,968,000	20,255,000	24,079,000	25,142,000	29,512,000	23,451,000	25,498,000	29,671,000	34,719,000	\$ 37,512,000		
Current (2024) estimate of total cash flow		\$ 19,968,000	\$ 20,255,000	\$ 24,079,000	\$ 25,142,000	\$ 29,512,000	\$ 23,451,000	\$ 25,498,000	\$ 29,671,000	\$ 34,719,000	\$ 37,512,000	\$ 269,807,000	
Total cash flows paid to December 31, 2024		(14,223,000)	(14,563,000)	(16,165,000)	(15,155,000)	(17,019,000)	(11,421,000)	(12,125,000)	(12,838,000)	(13,292,000)	(7,441,000)	(134,242,000)	
Estimated future cash flows		5,745,000	5,692,000	7,914,000	9,987,000	12,493,000	12,030,000	13,373,000	16,833,000	21,427,000	30,071,000	135,565,000	
Impact of discounting		(2,512,000)	(2,401,000)	(3,006,000)	(3,614,000)	(4,483,000)	(4,402,000)	(4,715,000)	(5,846,000)	(7,387,000)	(9,262,000)	(47,628,000)	
Liability for accident years 2015 - 2024		\$ 3,233,000	\$ 3,291,000	\$ 4,908,000	\$ 6,373,000	\$ 8,010,000	\$ 7,628,000	\$ 8,658,000	\$ 10,987,000	\$ 14,040,000	\$ 20,809,000	87,937,000	
Liability for accident years 2014 and prior													63,948,000
Claims administration													9,873,000
Latent occupational diseases liability													12,132,000
Balance sheet liability at December 31, 2024													\$ 173,890,000

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

13. Insurance finance income (expenses) from insurance

The breakdown of insurance service expenses and insurance finance expenses is presented below:

	<u>2024</u>	<u>2023</u>
Interest on contract receivables	\$ 329,987	\$ 272,287
Bad debt	(224,306)	(177,138)
Expected increase related to discounting	(8,242,000)	(8,501,000)
Changes in discount rate	<u>(1,664,000)</u>	<u>(4,689,000)</u>
Total	\$ (9,800,319)	\$ (13,094,851)

14. Self-insured employers

Self-insured employers, principally the Government of Canada, whose claims are administered by the Board, directly bear the cost of their own incurred claims plus an administration fee. The total amount of the administration fee is included in the Statements of Comprehensive Income and for 2024 was \$286,227 (2023 - \$223,023). Assessments are net of the amount received from self-insured employers and accordingly claim costs do not include self-insured claims. Monies paid to the Board for the reimbursement of these claims are reflected in the Statements of Cash Flows as cash received from self-insured employers for assessments, and monies paid out relating to these claims are recorded as cash paid out to claimants or third parties on their self-insured claims. The total self-insured claims costs incurred for 2024 are as follows:

	<u>2024</u>	<u>2023</u>
Short-term disability	\$ 522,043	\$ 160,684
Long-term disability	593,300	309,077
Health care	405,739	187,147
Rehabilitation	<u>14,535</u>	<u>26,805</u>
	\$ 1,535,617	\$ 683,713

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

15. Funding strategy and capital management

The capital management objectives reflect the mandate that a fully funded compensation system is essential for securing financial obligations associated with the payment of current and future worker benefits and the administration of an effective workers compensation system.

The policy states that if funding status is between 125% and 140%, the Board will provide an assessment rate discount to eligible employers in the subsequent year equal to the funding surplus above 125% amortized over 15 years. If the funding percentage is over 140%, the Board may consider a surplus distribution back to eligible employers of the previous year. The surplus distribution will be determined by the Board in the following year and take into consideration subsequent financial results and information present at the time of the distribution. No amount has been recorded in the current financial statements related to the current year funding status as the Board has not yet determined if there will be a surplus distribution or the amount of any such distribution.

The benefits liabilities presented in the financial statements are recorded in accordance with IFRS 17 – Insurance Contracts. The approved funding policy (POL-136) required the funding status percentage to be calculated using contract liabilities calculated in using a discount rate that reflects the best estimate of the long-term average rate of return than can be expected using the benchmark asset allocation adopted by the Board. This type of a valuation is called a funding valuation and is the valuation method used to calculate contract liabilities and fulfillment cashflows used in the rate settling process of the Board. The reconciliation of the liabilities and funding percentage calculation based on the funding policy are as follows:

	<u>2024</u>	<u>2023</u>
Assets per financial statements	\$ 267,739,147	\$ 239,107,294
Plus: Assessment receivables	<u>3,146,206</u>	<u>2,617,063</u>
Assets for funding purposes	<u>\$ 270,885,353</u>	<u>\$ 241,724,357</u>
Liabilities per financial statements	\$ 175,819,485	\$ 171,919,101
Less: Liabilities for incurred claims	(173,890,000)	(170,652,000)
Plus: Assessment receivables	3,146,206	2,617,063
Plus: Benefit liabilities for funding purpose	<u>164,784,000</u>	<u>163,473,000</u>
Liabilities for funding purposes	<u>\$ 169,859,691</u>	<u>\$ 167,357,164</u>
Funding percentage in accordance with POL-136	159.5%	144.4%

Workers Compensation Board of Prince Edward Island

Notes to the Financial Statements

December 31, 2024

16. Legislative obligations and other related party transactions

Included in these financial statements are transactions with various Prince Edward Island crown corporations, departments, agencies and Boards related to the Board by virtue of common influence by the Government of Prince Edward Island. Routine operating transactions in the ordinary course of business with related parties are settled at prevailing market prices under normal trade terms.

The Board is required by the *Workers Compensation Act* (the Act) to provide an annual grant to the Workers' Advisor Program. The Workers' Advisor Program operates autonomously from the Board and assists workers or dependants of workers in respect of claims for compensation. During the year, the Board paid \$225,088 (2023 - \$175,770) of the Program's expenses.

The Board is required by the Act to provide an annual grant to the Employers' Advisor Program. The Employers' Advisor Program operates autonomously from the Board and assists employers in respect of classifications, assessments and claims for compensation. During the year, the Board paid \$174,685 (2023 - \$153,190) of the Program's expenses.

The Board is required by the Act to pay the operating costs of the Appeals Tribunal. During the year, the Board paid \$92,165 (2023 - \$114,903) to cover the operating costs of the Tribunal.

The table below presents total compensation of the key management group, which includes the Board of Directors and senior executive staff.

	<u>2024</u>	<u>2023</u>
Short-term employee benefits	\$ 913,225	\$ 905,662
Post employment benefits	<u>155,331</u>	<u>140,444</u>
	<u>\$1,068,556</u>	<u>\$1,046,106</u>
