



# ANNUAL REPORT

*Risk Management and Insurance*

2018-2019



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# Message from the Deputy

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Hon. Darlene Compton  
Minister of Finance  
Second Floor South, Shaw Building  
95 Rochford Street  
PO Box 2000  
Charlottetown, PE C1A 7N8

Dear Ms. Compton:

It is my privilege to submit the annual report of the Risk Management and Insurance Section of Finance (RM&I). Included in this report are the audited financial statements of the PEI Self-Insurance and Risk Management Fund for the year ending March 31<sup>st</sup>, 2019.

Respectfully submitted,



Cindy Harris  
Secretary to Treasury Board

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# Mandate of the Risk Management and Insurance Section (RM&I)

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## Mandate

Our section's mandate is to develop, implement and maintain Government's risk management and self-insurance programs, with the goal of eliminating or minimizing the potential for loss to Government departments, crown corporations, agencies, commissions, Health PEI and school boards. The objective is to provide a quality service which protects public sector assets and programs and to control losses when they occur by providing a professional claims management service to our insureds and the public we serve. We focus on providing professional risk management and insurance advice on a daily basis, which is essential to the many programs our clients deliver to the general population.



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## Section Overview

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In 1986 the PEI Self-Insurance and Risk Management (Fund) was established by the Government of Prince Edward Island under the *Financial Administration Act*. The volatile insurance market of the day caused premiums to escalate, and there was a reluctance to insure Government sector entities. To counter the effects of escalating premiums and diminishing coverage limits, it was the decision of Government to establish its own self-insurance program. The program administered by Risk Management and Insurance (RMI) insured the liability exposures for Government, the health sector, school boards and Crown Corporations. Since inception, the Fund has built up a surplus of approximately \$11.6 million after paying claim and administration costs. In addition, RMI has established risk and claims management services designed specifically for Government and all associated PEI public sector organizations.

In 1997 property premiums with private insurers were increasing. The increased rates were a reflection of trends in the world marketplace and not the loss experience of the Province. A decision was made to increase our loss retention of \$500,000 on Government, School and Health Sector properties. Treasury Board approved including these exposures under the umbrella of the existing self-insurance fund. Stop loss insurance with an aggregate of \$1 million is purchased to limit Government's exposure for any one policy year and for any one loss. Although the events of September 2001 had a devastating effect on the insurance marketplace, Government was able to maintain stability with its rates, due to the capacity of the fund. In 2005, the program was further expanded to insure the entire automobile fleets of Government, Health and School Boards/Districts under the Fund. Government Departments, Agencies, Commissions, Crown Corporations and School Boards realized an immediate premium savings of approximately 40 per cent. In 2011, due to soft market conditions, we were able to negotiate a reduction of our property loss retention from \$500,000 to \$250,000. This year our property loss retention on Government locations was \$250,000. Schools were \$250,000 and Health Sector was \$100,000.

The growth of the Fund, over the last 32 years, has required our section to expand its risk capacity and the professional services needed for our clients to manage new risks, more effectively. We now have a diversified book of business and only special risks are insured in the private sector market. The *Financial Administration Act* serves as our guide to limit eligibility to reporting entities and those who use the *Treasury Board Policy and Procedure Manual* as their management guide.

World terrorism events and volatile climate change makes managing risk more challenging. Risk Management and Insurance continues to expand programs and services to our clients in Government and other public sector entities funded by Government. We have been able to negotiate favorable premiums with a balance between very low risk property and liability exposures, with those which by nature of the business conducted are more likely to have claims made against them. The insurance market for the past several years have been competitive. This is no longer the case as during our

negotiations with our excess insurers for the 2019-2020 renewal terms we have seen premiums trending upward with some insurance markets declining coverage. The insurance markets are now experiencing a “hard market”. Premiums will likely continue on this upward trend for the foreseeable future.

There is a growing trend for more claims to be brought against Government and other public sector entities including School Boards who are responsible for managing the risks associated with our public education system. There are also growing numbers of malpractice suits against medical professionals, which name Health PEI institutions and employees as defendants. Risk Management & Insurance is more vigilant than ever in managing files, which have potential for significant legal costs, before actual litigation.

### **Services Provided by Risk Management & Insurance to Government Departments, Crown Corporations, Agencies, Commissions, Health PEI and School Boards.**

- \* Coordinate consultant studies on major projects and critical risk-management issues of the day.
- \* Answer frequent inquiries and provide direction to management as it relates to loss control, legal liability issues and current claim files.
- \* Perform risk assessments for specific clients and develop with them in partnership an effective risk-management strategy.
- \* Negotiate settlements of claim files with the general public, or alternatively provide understandable explanations why particular claims will not be paid.
- \* Coordinate seminars and make presentations to clients of Risk Management and Insurance. The seminars are designed to target risk exposures/concerns of the client, using practical risk management practices and insurance principles.
- \* Provide consultation services to Procurement Services regarding tenders or RFPs, with recommendations on insurance requirements for vendors and specific language which transfers risk from Government to the service provider.
- \* Facilitation with Health PEI management in negotiating contracts with a broad spectrum of service providers with an objective to confirm vendors are adequately insured, and the contract language is fair in terms of legal responsibilities.
- \* Review IT contracts and confirm with vendors a Government entity can and will provide insurance coverages as required in the contract, and recommend language which will make the service providers accept legal responsibility for their programs and services.
- \* Support a program where qualified persons meet with families and health care professionals to examine why a particular client had an unfavorable and unexpected experience. These disclosures minimize the need for litigation, in order for family members to receive the desired details.

## **SUMMARY**

Although the demands for services with immediate time lines is an inevitable trend in our business, we have become more efficient in how we manage the needs of our clients. In our experience clients who have internal resources with risk management and insurance knowledge can respond and provide direction with minimum consultation. For this reason we are providing more training and direction to selected individuals. Our section can approve a policy and procedure for clients rather than develop it for them.

The insurance marketplace sees Government and related entities as a source to generate revenue for their business, as a broker, or insurer. Naturally we welcome their invitations to do business, but want to maintain a level playing field when it comes to competitive quotations for our risks to be insured above and beyond our self retention values.

Brokers and insurers must be willing to insure a broad spectrum of risks in our liability, property, fiduciary and auto portfolios. It is not uncommon for us to solicit quotations for specific risks we do not wish to expose our Fund to, for a variety of loss control or insurance reasons. We now solicit quotations from brokers electronically so all brokers are sent the same information at the same time.

In recent years we have been actively involved in the contract process, to minimize risks associated with doing business with private sector vendors. The demands for our expertise in this area has expanded particularly with the Health Sector, as they realize the potential risk exposures with the many students training in their environment, as well as the large number of vendors providing IT support, and other goods and services to our hospitals, manors, and senior homes.

Health PEI has made significant changes to improve all efficiencies with contract management. There has also been consultations with their procurement division to minimize risk exposures in the tender processes while ensuring competitive pricing.

We are encouraged to see the cooperation and resources allocated towards initiatives such as “Business Continuity Management”. These are risk management strategies developed by senior management throughout Government. This strategic management exercise will minimize risk to Government services and assets. An “Enterprise Risk Management” approach will minimize the risk of a duplication of resources and omissions in managing risks throughout the public sector.

The “Excess Insurers” of Government and Health PEI have reviewed our claims and risk management procedures and found these to meet or exceed their standards. Our departmental accounting professionals continue to extract and create reports which provide further insight on the financial performance and assist in preparing our section for the annual audit by the Office of the Auditor General.

## SOMMAIRE

Bien que la demande de services sans délai est une tendance inévitable dans notre domaine, nous avons amélioré notre efficacité en matière de gestion des besoins des clients. Selon notre expérience, les clients qui ont des ressources internes en gestion de risque et une connaissance des assurances peuvent répondre aux clients et les orienter avec une consultation minimale. Pour cette raison, nous offrons une formation et une orientation supplémentaire à certaines personnes. Notre section peut approuver une politique et une procédure pour les clients plutôt que de l'élaborer pour eux.

Le marché de l'assurance perçoit le gouvernement et les entités connexes comme générateurs de revenus pour leur entreprise, courtier ou assureur. Évidemment, nous sommes ouverts à leurs invitations à faire affaire, mais nous voulons maintenir les règles du jeu équitables quand vient le moment d'obtenir des présentations concurrentielles de prix pour nos risques afin d'être assurés au-delà de nos propres valeurs de rétention.

Les courtiers d'assurance et les assureurs doivent être disposés à assurer un vaste échantillon de risques dans nos portefeuilles de responsabilité, propriété, fiducies et automobiles. Il arrive fréquemment que nous sollicitons des propositions de prix pour des risques particuliers auxquels nous ne voulons pas exposer le fonds pour des raisons différentes de perte de maîtrise et d'assurances. Nous sollicitons maintenant des propositions de prix par voie électronique pour que tous les courtiers d'assurance reçoivent la même information au même moment.

Dans les dernières années, nous avons participé activement au processus d'attribution de contrats afin de minimiser les risques associés aux affaires auprès des fournisseurs du secteur public. Les demandes pour notre expertise dans ce domaine ont augmenté en particulier dans le secteur de la santé, au moment où ils réalisent les risques de responsabilité potentiels en raison des nombreux étudiants qui suivent une formation dans leur milieu, ainsi qu'avec un grand nombre de fournisseurs offrant du soutien TI et d'autres biens et services dans nos hôpitaux et nos foyers de soins.

Santé Î.-P.-É. a apporté des changements importants afin d'améliorer l'efficacité dans la gestion des contrats. Des consultations ont également eu lieu avec la Direction des achats en vue de réduire les risques associés au processus d'appel d'offres tout en assurant des prix concurrentiels.

Il est encourageant de voir la coopération et les ressources que reçoivent des initiatives telles que les plans de continuité des activités. Ces stratégies de gestion de risques ont été mises au point par la haute direction dans l'ensemble du gouvernement. Cet exercice de gestion stratégique minimisera le risque que comportent les services et biens du gouvernement. Une approche axée sur la gestion du risque d'entreprise minimisera le risque du double emploi de ressources et des omissions dans l'ensemble du secteur public.

Certains assureurs du gouvernement et de Santé Î.-P.-É. ont révisé nos procédures de gestion des risques et de réclamation. Celles-ci semblent respecter leurs normes ou même aller au-delà de leurs normes. Les comptables professionnels du ministère continuent d'extraire des données et de créer des

rapports qui peuvent servir à l'analyse du rendement du Fonds et à la préparation à la vérification annuelle effectuée par le Bureau du vérificateur général. Chaque année, le Bureau du vérificateur général réalise une vérification détaillée pour notre Section. Les dossiers financiers du Fonds, ainsi que d'autres comptes administratifs, sont examinés de près



## CLAIMS/INCIDENTS ACTIVITY REPORT

### Claims

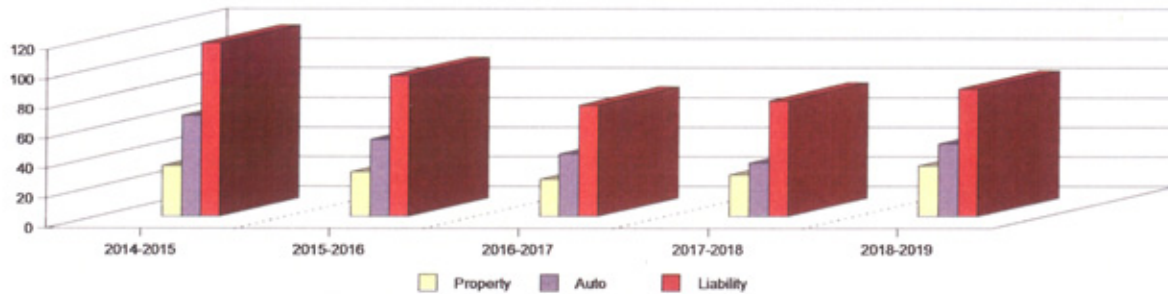
	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Property	34	30	25	28	34
Auto	68	52	42	36	49
Liability *	117	95	75	78	86
<b>TOTAL:</b>	<b>219</b>	<b>177</b>	<b>142</b>	<b>142</b>	<b>169</b>

### Incidents

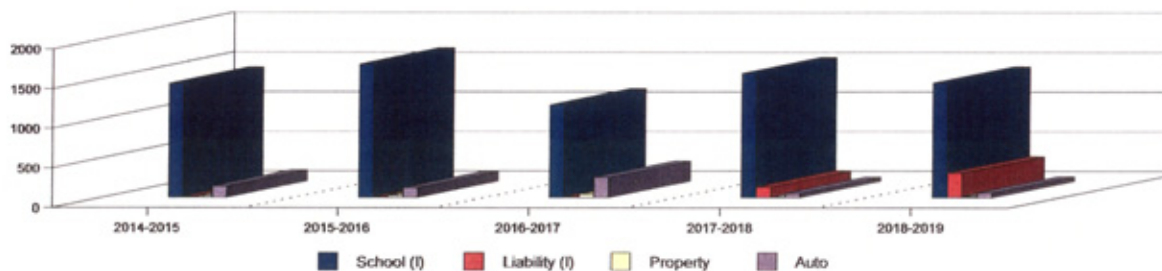
	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
School (I)	1439	1682	1171	1566	1446
Property (I)	10	10	10	3	10
Auto (I)	19	28	40	52	60
Liability (I)	140	120	256	133	313
<b>TOTAL:</b>	<b>1608</b>	<b>1840</b>	<b>1477</b>	<b>1754</b>	<b>1829</b>

Incidents (I) = Number of Written Reports Received for Each Class of Incident and Files Opened in the Event a Claim is pursued.

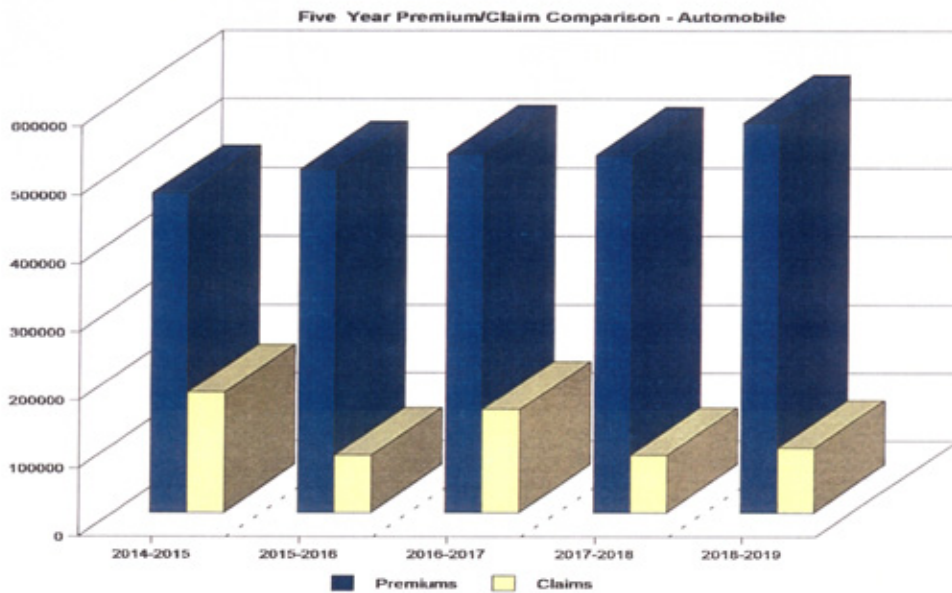
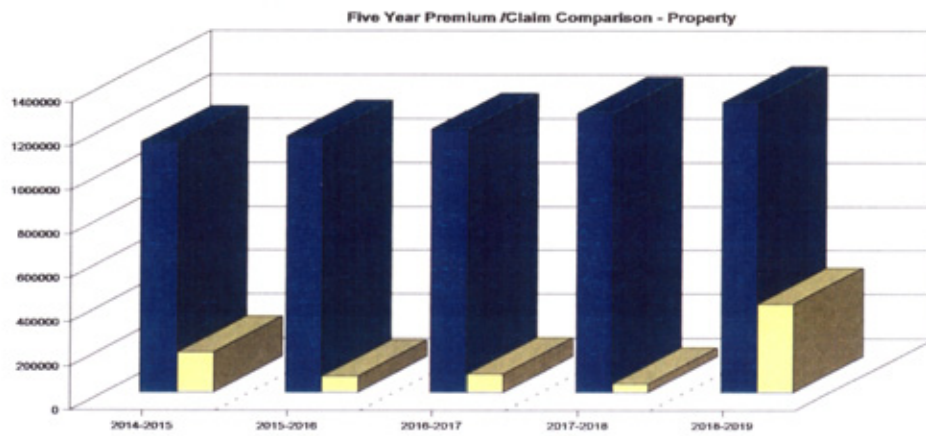
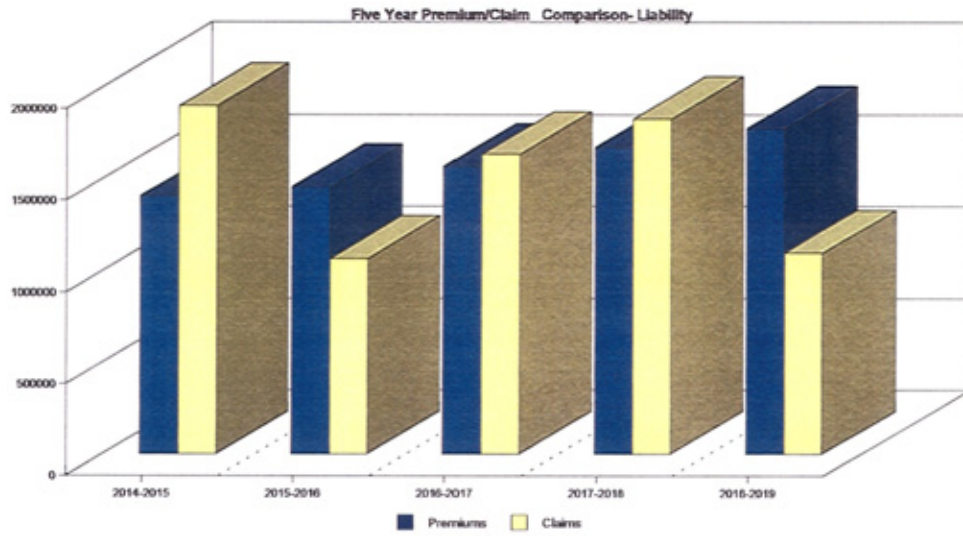
**Claims Activity 2014-2019**

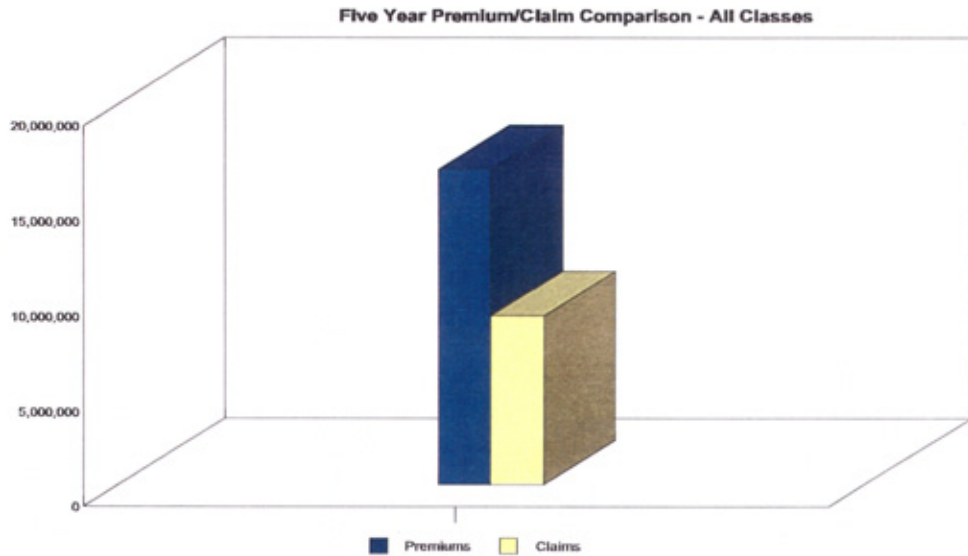


**Incident Activity 2014-2019**



## FIVE YEAR PREMIUM/CLAIM COMPARISON





**Loss Ratios**

	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
<b>Liability</b>	134%	73%	116%	109%	62%
<b>Property</b>	16%	6%	7%	3%	30%
<b>Automobile</b>	38%	17%	29%	16%	17%

**Five Year Loss Ratio for Self Insured Risk Management Fund all classes 54%**

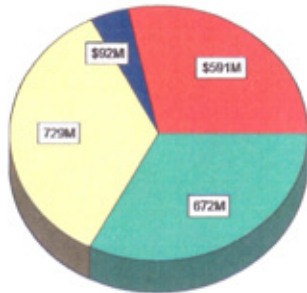
Loss Ratios are compiled for each fiscal year in order to establish whether current premiums charged are adequate to maintain the Self Insurance Risk Management Fund. Premiums are net after payments for excess insurance purchased over and above self insured retentions. Premiums for Property and Automobile include payment from General Government which cover deductibles under property insurance and physical damage claims to owned automobiles under the automobile insurance program. Property premiums include \$98,000.00 allocation and automobile premiums include a \$42,000.00 allocation. Claim statistics for the loss ratios are derived for each fiscal year using the Insurance & Risk Management Information System (IRMIS). File Contents Listings, which are reviewed each year. Outstanding reserves and net claims costs are combined to arrive at the total claim exposure. Once Premium and Claim statistics are compiled the total amount of the claims are divided into the premium and multiplied by 100% in order to arrive at the Loss Ratio.

**INSURED PROPERTY VALUES/AUTO FLEET STATISTICS**

**Insured Property Values (Building/Equipment/Contents)**

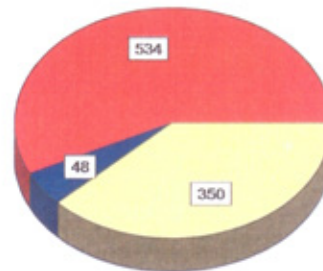
Insured	Number of Locations	Building Values	Contractors Equipment Values	Content Values	Total
General Government	438	\$467,540,095	\$43,344,073	\$79,663,626	\$590,547,794
Crown Corporations	65	\$59,339,110	\$2,198,531	\$30,086,000	\$91,623,641
Schools	71	\$662,602,298		\$66,260,229	\$728,862,527
Health PEI	31	\$527,868,803		\$144,657,593	\$672,526,396
<b>TOTAL:</b>	<b>605</b>	<b>\$1,717,350,306</b>	<b>\$45,542,604</b>	<b>\$320,667,448</b>	<b>\$2,083,560,358</b>

**Total Insured Property Values - \$2 Billion +**



- General Government
- Schools
- Crown Corporations
- Health PEI

**Fleet Automobile Statistics**



- General Government
- Crown Corporations
- Schools

**PRINCE EDWARD ISLAND  
SELF-INSURANCE AND  
RISK MANAGEMENT FUND**

Financial Statements  
March 31, 2019



## Management's Report

### *Management's Responsibility for the Financial Statements*

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is responsible for the notes to the financial statements and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is responsible for implementing and maintaining a system of internal control to provide reasonable assurance that reliable financial information is produced.

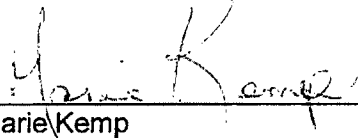
Treasury Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board reviews internal financial reports on a regular basis and externally audited financial statements annually.

The Auditor General conducts an independent examination, in accordance with Canadian generally accepted auditing standards and expresses her opinion on the financial statements. The Auditor General has full and free access to financial information and management of the Prince Edward Island Self-Insurance and Risk Management Fund and can meet when required.

On behalf of the Prince Edward Island Self-Insurance and Risk Management Fund



\_\_\_\_\_  
Cindy Harris  
Secretary to Treasury Board



\_\_\_\_\_  
Marie Kemp  
Insurance Officer

June 25, 2019





# Prince Edward Island Île-du-Prince-Édouard

## Office of the Auditor General

PO Box 2000, Charlottetown PE  
Canada C1A 7N8

## Bureau du vérificateur général

C.P. 2000, Charlottetown PE  
Canada C1A 7N8

### INDEPENDENT AUDITOR'S REPORT

#### To the Members of Treasury Board

#### Opinion

I have audited the financial statements of the **Prince Edward Island Self-Insurance and Risk Management Fund**, which comprise the statement of financial position as at March 31, 2019, and the statements of operations and accumulated surplus, changes in net financial assets, and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2019, and the results of its operations, changes in net financial assets, and cash flow for the year then ended in accordance with Canadian public sector accounting standards.

#### Basis for Opinion

I conducted the audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards 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 Fund'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 an intention exists to liquidate or cease the operations of the Fund, or there is no realistic alternative but to do so.

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

#### Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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 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, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 Fund'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 Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund 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.

I 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 I identify during my audit.



**B. Jane MacAdam, FCPA, CA**  
Auditor General

**Charlottetown, Prince Edward Island**  
June 25, 2019

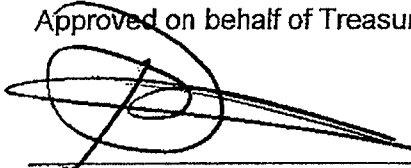
**PRINCE EDWARD ISLAND  
SELF-INSURANCE AND RISK MANAGEMENT FUND**

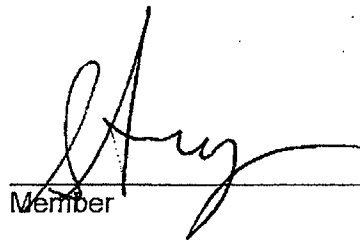
Statement of Financial Position  
March 31, 2019

	2019	2018
	\$	\$
<b>Financial Assets</b>		
Accounts receivable (Note 4)	298,745	198,377
Due from the Province of Prince Edward Island (Note 5)	<u>20,278,401</u>	<u>18,613,751</u>
	20,577,146	18,812,128
<b>Liabilities</b>		
Accounts payable and accrued liabilities	18,810	37,606
Reserve for unsettled claims (Note 7)	<u>8,920,325</u>	<u>8,058,183</u>
	<u>8,939,135</u>	<u>8,095,789</u>
<b>Net Financial Assets</b>	<u>11,638,011</u>	<u>10,716,339</u>
<b>Non Financial Assets</b>		
Prepaid expenses	<u>58,034</u>	<u>56,655</u>
<b>Accumulated Surplus</b>	<u>11,696,045</u>	<u>10,772,994</u>

(The accompanying notes are an integral part of these financial statements.)

Approved on behalf of Treasury Board:

  
\_\_\_\_\_  
Chair

  
\_\_\_\_\_  
Member

**PRINCE EDWARD ISLAND  
SELF-INSURANCE AND RISK MANAGEMENT FUND**

Statement of Operations and Accumulated Surplus  
for the year ended March 31, 2019

	Budget 2019	2019	2018
	\$	\$	\$
<b>Revenues</b>			
Insurance premiums (Note 8)	5,000,000	5,168,550	4,941,628
Grant in lieu of interest (Note 5)	175,000	175,000	175,000
Claim recoveries (Note 9)	<u>150,000</u>	<u>252,049</u>	<u>167,329</u>
	<u>5,325,000</u>	<u>5,595,599</u>	<u>5,283,957</u>
<b>Expenses</b>			
Claims (Note 7)	2,000,000	2,796,713	2,026,525
Consulting	200,000	142,526	133,924
Insurance premiums (Note 10)	1,500,000	1,493,229	1,446,890
Office and travel	10,000	10,694	9,622
Salary and benefits	<u>260,000</u>	<u>229,386</u>	<u>204,969</u>
	<u>3,970,000</u>	<u>4,672,548</u>	<u>3,821,930</u>
<b>Annual Surplus</b>	<u>1,355,000</u>	<u>923,051</u>	<u>1,462,027</u>
Accumulated Surplus, beginning of year		<u>10,772,994</u>	<u>9,310,967</u>
<b>Accumulated Surplus, end of year</b>		<u>11,696,045</u>	<u>10,772,994</u>

(The accompanying notes are an integral part of these financial statements.)

**PRINCE EDWARD ISLAND  
SELF-INSURANCE AND RISK MANAGEMENT FUND**

Statement of Changes in Net Financial Assets  
for the year ended March 31, 2019

	Budget 2019	2019	2018
	\$	\$	\$
<b>Net Financial Assets, beginning of year</b>	10,716,339	10,716,339	9,254,312
<b>Change in year:</b>			
Annual surplus	1,355,000	923,051	1,462,027
Prepaid expenses	-	(1,379)	-
	<u>1,355,000</u>	<u>921,672</u>	<u>1,462,027</u>
<b>Net Financial Assets, end of year</b>	<u>12,071,339</u>	<u>11,638,011</u>	<u>10,716,339</u>

(The accompanying notes are an integral part of these financial statements.)

**PRINCE EDWARD ISLAND  
SELF-INSURANCE AND RISK MANAGEMENT FUND**

Statement of Cash Flow  
for the year ended March 31, 2019

	2019	2018
	\$	\$
<b>Cash provided (used) by:</b>		
<b>Operating Activities</b>		
Annual surplus	923,051	1,462,027
Changes in:		
Accounts receivable	(100,368)	39,450
Due from the Province of Prince Edward Island	(1,664,650)	(1,791,641)
Accounts payable and accrued liabilities	(18,796)	23,894
Reserve for unsettled claims	862,142	266,270
Prepaid expenses	(1,379)	-
<b>Cash provided by operating activities</b>	<u>-</u>	<u>-</u>
Cash, beginning of year	<u>-</u>	<u>-</u>
<b>Cash, end of year</b>	<u><u>-</u></u>	<u><u>-</u></u>

(The accompanying notes are an integral part of these financial statements.)



# PRINCE EDWARD ISLAND SELF-INSURANCE AND RISK MANAGEMENT FUND

Notes to Financial Statements  
March 31, 2019

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## 1. Nature of Operations

The Prince Edward Island Self-Insurance and Risk Management Fund (the Fund) was established under Part II of the *Financial Administration Act*. The Fund provides risk management services as well as general liability, errors and omissions, primary property, crime, and automobile liability insurance for government entities. The Fund has risk management obligations that cause it to incur expenses related to claims. The Fund is administered by Treasury Board.

## 2. Summary of Significant Accounting Policies

### Basis of Accounting

These financial statements are prepared in accordance with Canadian public sector accounting standards. Since the Fund has no unrealized remeasurement gains or losses attributed to foreign exchange, derivatives, portfolio investments, or other financial instruments, a statement of remeasurement gains and losses is not prepared.

The following is a summary of the significant accounting policies used in the preparation of these financial statements.

### a) Reserve for Unsettled Claims

The reserve for unsettled claims represents management's best estimate of the total costs, including investigation, litigation, and the projected final settlement of specific claims incurred as of the financial statement date. It also includes a general reserve to cover possible claims incurred as of the financial statement date but not yet reported to management.

### b) Prepaid Expenses

Prepaid expenses include payments for insurance and are expensed over the periods expected to benefit.

### c) Revenues and Expenses

Revenues and expenses are recorded on an accrual basis in the period in which the transaction or event that gave rise to the revenue or expense occurred.

### d) Recoveries

Recoveries represents management's best estimate of the full amount of costs that can be recovered or are receivable, less any amounts that are uncollectible. Claim recoveries include amounts recovered or receivable from both first and third parties in relation to individual claims.

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SELF-INSURANCE AND RISK MANAGEMENT FUND**

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**2. Summary of Significant Accounting Policies (continued...)**

**e) Use of Estimates and Measurement Uncertainty**

The preparation of the Fund's financial statements, in conformity with Canadian public sector accounting standards, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material.

The items requiring the use of significant estimates are the reserve for unsettled claims and claim recoveries. The reserve for unsettled claims arises from estimates of anticipated costs such as professional expenses and damages to settle claims that are currently open. The amount also represents an estimate for those incidents that have been incurred but not reported to management as of the financial statement date. At March 31, 2019, the reserve for unsettled claims and claim recoveries were valued based on an actuarial review. The estimates were determined using Canadian accepted actuarial practices. After consultation with the Fund's actuary, management approved these estimates.

**3. Financial Instruments**

Financial instruments consist of accounts receivable, amounts due from the Province of Prince Edward Island, and accounts payable and accrued liabilities. They are carried at cost, less any provisions on accounts receivable. Provisions are calculated on a specific basis. Due to their short-term nature, the carrying value of these financial instruments approximates their fair value. The Fund is exposed to market, credit, and liquidity risk in relation to their financial instruments as disclosed in Note 11.

**4. Accounts Receivable**

	<u>2019</u>	<u>2018</u>
	\$	\$
Recoveries	286,584	186,525
Other	<u>12,161</u>	<u>11,852</u>
	<u>298,745</u>	<u>198,377</u>

## **PRINCE EDWARD ISLAND SELF-INSURANCE AND RISK MANAGEMENT FUND**

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### **5. Due from the Province of Prince Edward Island**

The amount Due from the Province of Prince Edward Island of \$20,278,401 (2018 - \$18,613,751) includes \$6,887,571 that was invested in Provincial Deposit Receipts until March 31, 1997. At that time, Treasury Board directed the investment be redeemed and replaced by a non-interest bearing account receivable from the province. In lieu of interest on investments, an annual payment of \$175,000 is paid by the province to the Fund. The Fund does not maintain its own bank account. All transactions of the Fund are processed through the province's bank account with the net change reflected in the Due from the Province of Prince Edward Island account.

### **6. Employee Future Benefits**

#### **a) Sick Leave**

Under existing employment agreements, employees are credited 1.25 days per month for use as paid absences in the year due to illness or injury. Employees are allowed to accumulate unused sick day credits each year up to the allowable maximum. Accumulated credits may be used in future years to the extent the employee's illness or injury exceeds the current year's allocation. The use of accumulated sick days for sick leave compensation ceases on termination of employment and there is no obligation to settle these amounts with cash payments. A liability has not been calculated and no accrual has been recorded in these financial statements. The related liability is recorded by the province. Salary expense is included in the financial statements.

#### **b) Pension**

Permanent employees of the Fund participate in the Province of Prince Edward Island Civil Service Superannuation Pension Plan (the Plan) which is a multi-employer contributory defined benefit pension plan. The Plan provides a pension on retirement based on two percent of the best three year average salary times the number of year's pensionable service for service to December 31, 2013, and two percent of the career average salary indexed with cost of living adjustments after 2013. Indexing is subject to the funded level of the plan after December 31, 2016. The Plan is administered by the Province of Prince Edward Island. The Fund's annual portion of the contributions to the Plan are paid by the province and recognized on the province's financial statements. Any unfunded liability is the responsibility of the province and therefore no liability has been recognized in these financial statements.

#### **c) Retirement Allowance**

The fund provides a retirement allowance to its classified employees. The amount paid to eligible employees at retirement is based on the number of years of service and the rate of pay in effect at the retirement date. The benefit costs and liabilities related to the allowance are assumed by the Province and not included in these financial statements.

**PRINCE EDWARD ISLAND  
SELF-INSURANCE AND RISK MANAGEMENT FUND**

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**7. Reserve for Unsettled Claims**

	<u>Liability</u> \$	<u>Property</u> \$	<u>Auto</u> \$	<u>Total</u> <u>2019</u> \$	<u>Total</u> <u>2018</u> \$
Reserve, beginning of year	7,823,448	120,513	114,222	8,058,183	7,791,913
Changes in year:					
Settlement costs paid	(494,788)	(263,250)	(139,749)	(897,787)	(853,443)
Professional fees paid	(981,600)	(40,794)	(14,390)	(1,036,784)	(906,812)
Increase in claims expense	<u>2,028,171</u>	<u>588,361</u>	<u>180,181</u>	<u>2,796,713</u>	<u>2,026,525</u>
Net change in reserve	<u>551,783</u>	<u>284,317</u>	<u>26,042</u>	<u>862,142</u>	<u>266,270</u>
Reserve, end of year	<u>8,375,231</u>	<u>404,830</u>	<u>140,264</u>	<u>8,920,325</u>	<u>8,058,183</u>

**8. Revenue - Insurance Premiums**

	<u>2019</u> \$	<u>2018</u> \$
General liability, errors, and omissions	2,515,054	2,390,982
Primary property and crime	1,827,852	1,752,884
Automobile liability	677,761	633,663
General government	<u>147,883</u>	<u>164,099</u>
	<u>5,168,550</u>	<u>4,941,628</u>

**9. Claim Recoveries**

	<u>2019</u> \$	<u>2018</u> \$
General liability, errors, and omissions	82,712	115,462
Change in estimated recoveries	<u>102,038</u>	<u>(20,819)</u>
	<u>184,750</u>	<u>94,643</u>
Primary property and crime	68,907	97,421
Change in estimated recoveries	<u>(2,011)</u>	<u>(15,729)</u>
	<u>66,896</u>	<u>81,692</u>
Automobile liability	371	1,000
Change in estimated recoveries	<u>32</u>	<u>(10,006)</u>
	<u>403</u>	<u>(9,006)</u>
	<u>252,049</u>	<u>167,329</u>

**PRINCE EDWARD ISLAND  
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**10. Insurance Premiums Expense**

	<u>2019</u>	<u>2018</u>
	\$	\$
General liability, errors, and omissions	739,323	718,120
Primary property and crime	604,756	579,620
Automobile liability	149,150	149,150
	<u>1,493,229</u>	<u>1,446,890</u>

**11. Financial Management**

The Fund is exposed to market, credit, and liquidity risk from its financial instruments. An analysis of these risks is provided below.

**Market Risk**

Market risk is comprised of currency, interest rate, and price risk. The Fund does not hold or operate in foreign currency and thus market risk is derived from interest rate and price risk. Changes in interest rates significantly impact insurance companies and thus could increase the cost of premiums paid by the Fund. This risk is mitigated through the use of independent consultants and brokers to negotiate rates from reputable insurers and to monitor the market place for changes that could impact the Fund.

**Credit Risk**

The Fund is exposed to credit risk with respect to accounts receivable. The Fund mitigates this risk through a regular monitoring process. Credit risk is also mitigated due to the fact that the majority of the receivables are due from the Province of Prince Edward Island who controls 100 percent of the Fund. The Fund has no impaired accounts receivable at March 31, 2019.

**Liquidity Risk**

Liquidity risk is the risk that the Fund will not be able to meet all its cash outflow obligations as they come due. The Fund mitigates this risk by monitoring the level of its financial assets and the growth of the same and by purchasing excess insurance to provide additional liability coverage on individual claims.

The self retention limits for the Fund per claim in the current fiscal year were:

Liability	\$5,000,000	and	\$1,000,000 (Medical Malpractice)
Property	\$ 250,000	and	\$ 100,000 (Health PEI), \$25,000 (QEH)
Auto	\$1,000,000		

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**11. Financial Management (continued...)**

Additional coverage from excess insurers:

Liability	\$10,000,000	and	\$ 19,000,000 (Medical Malpractice)
Property	\$50,000,000	and	\$313,684,625 (QEH)
Auto	\$19,000,000		

**12. Related Party Transactions**

Premiums collected and first party claims paid are with government entities. Certain costs incurred by the province on behalf of the Fund are not reflected in these financial statements. These costs include office accommodations, equipment and support, other employee benefits, and administrative expenses.

**13. Budgeted Figures**

Budgeted figures provided for comparative purposes have been approved by an advisory committee.