

COMPENSATION FUND (YUKON)

FINANCIAL STATEMENTS

December 31, 2000

(audited)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

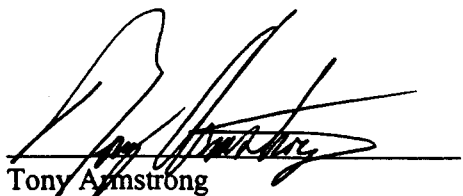
The management of the Yukon Workers' Compensation Health and Safety Board (the board) is responsible for establishing and maintaining a system of books, records, internal controls and management practices designed to provide reasonable assurance that reliable financial information is produced; board assets are safeguarded and controlled; transactions of the board are in accordance with relevant legislation, regulations and board policies; and that the board resources are managed efficiently and economically and the operations of the board are carried out effectively.

Management is also responsible for the integrity and objectivity of the financial statements of the board. The financial statements as at December 31, 2000, which include amounts based on management's best estimates as determined through experience and judgement, are in accordance with Canadian generally accepted accounting principles. Other financial information included in the Annual Report is consistent with these financial statements.

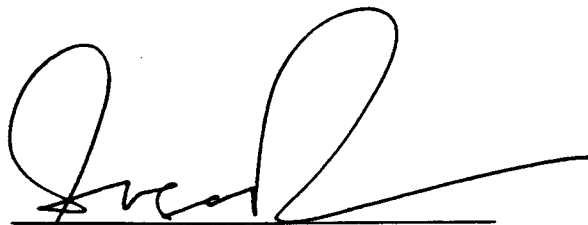
Board members (the Board) are responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Finance, Investment, and Audit Committee. The Finance, Investment, and Audit Committee has reviewed the financial statements and has submitted its report to the Board, which has approved these financial statements.

The Auditor General of Canada conducts an independent audit for the purpose of expressing his opinion on the financial statements. He also considers whether the transactions that come to his notice in the course of the audit are, in all significant respects, in accordance with specified legislation.

Hewitt Associates, an independent consulting actuarial firm, has been engaged to provide an opinion of the adequacy and appropriateness of actuarial valuations of the benefits liability of the board.



Tony Armstrong
President and Chief Executive Officer



Susan J. Ryan, CMA
Vice President, Operations

March 30, 2001



AUDITOR'S REPORT

To the Honourable Don Roberts, Minister responsible for the Compensation Fund

I have audited the balance sheet of the Compensation Fund as at December 31, 2000 and the statements of operations and reserves and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Compensation Fund as at December 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Workers' Compensation Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept, the financial statements are in agreement therewith and the transactions of the Compensation Fund that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Workers' Compensation Act* and regulations and the *Financial Administration Act* and regulations.

A handwritten signature in black ink, appearing to read 'Ron Thompson'.

Ronald C. Thompson, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
March 30, 2001

**Compensation Fund
Balance Sheet
As at December 31**

	2000 (\$000s)	1999 (\$000s)
Assets		
Accounts receivable (note 3)	\$ 260	\$ 198
Investments (note 4)	137,475	132,997
Capital assets (note 5)	<u>3,349</u>	<u>3,432</u>
	<u>\$ 141,084</u>	<u>\$ 136,627</u>
Liabilities and Reserves		
Bank overdraft	\$ 382	\$ 16
Accounts payable (note 3)	1,811	2,532
Benefits liability (note 6)	<u>80,792</u>	<u>74,144</u>
Total liabilities	82,985	76,692
Reserves (note 7)	<u>58,099</u>	<u>59,935</u>
	<u>\$ 141,084</u>	<u>\$ 136,627</u>

The accompanying notes are an integral part of the financial statements.

Contingencies (note 10)

**Approved by the Yukon Workers' Compensation
Health & Safety Board**


Chair
Dale Schmekel

Compensation Fund
Statement of Operations and Reserves
For the year ended December 31

			2000 (\$000s)	1999 (\$000s)
	Current Year Injuries	Prior Years Injuries	Total	Total
Revenue				
Assessments	\$ 6,654	\$ 160	\$ 6,814	\$ 6,500
Investment (note 4)	4,593	6,389	10,982	12,319
Recoveries and miscellaneous (note 8)	360	445	805	906
	<u>11,607</u>	<u>6,994</u>	<u>18,601</u>	<u>19,725</u>
Expenses				
Claims expenses (note 6)	12,571	1,686	14,257	13,843
Administration and prevention (note 11)				
Administration	4,195	750	4,945	4,549
Occupational health and safety	896		896	943
Workers' Advocate office	195		195	181
Appeals Tribunal office	144		144	
Total expenditures	<u>18,001</u>	<u>2,436</u>	<u>20,437</u>	<u>19,516</u>
Operating surplus (deficit) for the year	<u>\$ (6,394)</u>	<u>\$ 4,558</u>	(1,836)	209
Reserves, beginning of year			<u>59,935</u>	<u>59,726</u>
Reserves, end of year (note 7)			<u>\$ 58,099</u>	<u>\$ 59,935</u>

The accompanying notes are an integral part of the financial statements

**Compensation Fund
Statement of Cash Flows
For the year ended December 31**

	2000	1999
	(\$000s)	(\$000s)
Cash flows from operating activities		
Cash received from:		
Employers, for assessments	\$ 5,573	\$ 7,461
Recoveries and miscellaneous	1,077	524
Investment revenue	12,250	10,691
	<u>18,900</u>	<u>18,676</u>
Cash paid to:		
Claimants or third parties on their behalf	(7,754)	(8,292)
Suppliers, for administrative and other goods and services	(5,676)	(5,051)
	<u>(13,430)</u>	<u>(13,343)</u>
Cash provided by operating activities	<u>5,470</u>	<u>5,333</u>
Cash flows from investing activities		
Sales and maturities of investments	145,706	267,495
Proceeds on disposal of capital assets	1	1
Purchases of investments	(151,163)	(272,325)
Purchases of capital assets	(380)	(701)
Cash used in investing activities	<u>(5,836)</u>	<u>(5,530)</u>
Net decrease in cash	(366)	(197)
Cash, beginning of year	(16)	181
Bank overdraft, end of year	<u>\$ (382)</u>	<u>\$ (16)</u>

The accompanying notes are an integral part of the financial statements

Compensation Fund
Notes to Financial Statements
December 31, 2000

1. Nature of Operations

The Compensation Fund (the fund) was established by the *Workers' Compensation Act* and is administered by the Yukon Workers' Compensation Health and Safety Board (the board) pursuant to the Act. The Fund, as administered by the board, provides compensation for injury or death by accident arising out of and in the course of employment. Annual assessments are levied upon employers, usually on the basis of their reported assessable payrolls. The assessment and investment revenue pays for all of the claims, administration and prevention expenses.

2. Significant Accounting Policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The more significant accounting policies of the board are as follows:

(a) Benefits liability

The benefits liability represents the actuarial present value of all future benefit payments expected to be made for claims which have occurred in the current fiscal year or in any prior year. It is comprised of three liabilities for medical aid and compensation, pension, and annuity.

Medical aid and compensation includes benefits for medical aid, compensation for loss of earnings and personal property, lump sum payments for permanent impairment, rehabilitation assistance, emergency transportation, traditional aboriginal healing, and death and funeral expenses.

The pension liability includes monthly pension benefits indexed annually that are paid to spouses, dependent children and guardians of dependent children of those who die from a work-related injury.

The annuity liability is for workers who have received compensation for the same disability for at least two full years. Ten percent of the total compensation payments, plus interest, is set aside to provide a retirement annuity at sixty-five years of age.

2. Significant Accounting Policies (continued)

(b) Allocation of reserves

The reserves are comprised of a prevention and benefit enhancement reserve, a target reserve, and a rate transition reserve. Once the benefits liability is determined, the remaining difference between the board's assets and liabilities is credited to reserves as follows:

Prevention and benefit enhancement reserve - the initial amount identified as at December 31, 1997 will be credited with interest at the same rate as the annuity liability.

The target reserve itself has three components, funded as follows:

Catastrophic claims -	200 times the maximum wage rate
Adverse claims experience -	16% of the unsubsidized assessment revenue plus 12% of the benefits liability
Occupational disease and enhanced disabilities including latent occupational diseases -	7% of the benefits liability

After the target reserve has been funded, the rate transition reserve is charged with the difference between the amounts charged to the other two reserves and the total available for reserves.

(c) Allocation of revenues and expenses to current and prior years

Revenues are allocated to the current year with the exception of revenue items which clearly relate to prior years. Investment interest earned is allocated in proportion to the benefits liability and reserve opening balances.

Assessment revenues are allocated to the appropriate industry and class. Claims costs are allocated to the appropriate industry and class based on the year of accident.

Administration expenses allocated to prior years are estimated on the basis of the allowance for such expenses included in the benefits liability, as determined by the actuary. The ongoing claims management costs are estimated to be 13% of ongoing claims payments.

(d) Assessments

Assessment revenues are calculated on actual or estimated payrolls as reported by the employer, or on provisional assessments as determined by the board. Separate rates of assessment are established for each industry classification.

In addition, the board administers the compensation claims of employees of the Government of the Yukon related to injuries prior to January 1, 1993 when the Government was a self-insured employer. The Fund receives reimbursement for the claim costs and related administrative expenses of those employees.

2. Significant Accounting Policies (continued)

(e) Supplementary compensation benefits

Supplementary compensation benefits are granted, pursuant to the Yukon Workers' Compensation Supplementary Benefits Ordinance, to all persons receiving compensation on or after October 1, 1973 for accidents prior to that date. Compensation is increased to the amount that would have been granted had the accident occurred after the Act came into force. The cost of these benefits is recovered from the Yukon Consolidated Revenue Fund.

(f) Third party subrogated claims

In certain limited circumstances, under section 42 of the *Workers' Compensation Act*, the board is deemed to be an assignee of a cause of action in respect of a claimant's disability. The claimant receives 25% of any settlement received after deducting all the costs of the action. This is over and above any future benefits entitlement. The remaining amount is used to offset future claims benefits, which were previously expensed in accordance with actuarial calculations, and which were previously incorporated in the benefits liability.

Revenue received from third party subrogated claims is recorded in the year the settlement occurs. No provision is made for these claims in the benefits liability, because of their contingent nature.

(g) Investments

The objective of the board's investment policy is to ensure that funds are available to satisfy the liabilities. A portion of the investments is designated to match the benefits liability.

The carrying value of fixed-term investments, having terms greater than one year, consisting primarily of bonds, is cost, net of amortization of premiums/discounts on purchase. Fair value is the stated market value at year-end. Gains and losses realized on disposal of fixed-term investments during the year are deferred and amortized over the remaining period to maturity of the related investment.

Equity investments are carried at cost plus a moving average market method adjustment to amortize unrealized gains and losses over a five year period. Net realized gains or losses on the disposal of equity investments are deferred and amortized to income on a straight-line basis over five years.

(h) Allowance for doubtful accounts

An allowance for doubtful accounts is provided for by charges against assessment revenue. Doubtful accounts may be written off in accordance with board policy, if deemed uncollectible.

2. Significant Accounting Policies (continued)

(i) Capital assets

Capital assets are carried at cost less accumulated amortization. Amortization is calculated on the straight-line method, using rates based on the estimated useful life of the assets as follows:

Buildings	40 years
Furniture and equipment	5 to 10 years
Computer equipment & software development	3 years
Mine safety equipment	5 years

(j) Employee pension plan, leave and termination benefits

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Fund's contribution to the plan have been limited to an amount equal to the employees' contributions on account of current services. Effective April 1, 2000, the Fund's contributions increased to an amount reflecting the full cost of the employer contributions. This amount, expressed as a percentage of employee contributions, will fluctuate from year to year depending on the experience of the Plan. The Fund's contributions represent the total pension obligation of the Fund and are charged to operations on a current basis. As of April 1, 2000, the employer's contribution is 2.14 times the employees' contribution. The Fund is not required to make any contributions with respect to actuarial deficiencies of the Public Service Superannuation Account.

	<u>2000</u>	<u>1999</u>
Employees' contributions	\$ 130,145.98	\$ 114,649.31
Fund contributions	246,565.32	114,649.31
Total	<u>\$ 376,711.30</u>	<u>\$ 229,298.62</u>

Under the conditions of employment, employees may qualify and earn employment benefits for annual leave, retirement and severance pay. These benefits are accrued as earned. The liability for these benefits is included in accounts payable.

3. Accounts Receivable and Accounts Payable

	<u>2000</u> (\$000s)	<u>1999</u> (\$000s)
Receivable		
Assessments	\$ 194	\$ -
Other receivables	66	198
	<u>\$ 260</u>	<u>\$ 198</u>
Payable		
Government of Yukon	\$ 275	\$ 119
Other payables	1,536	1,534
Assessments refundable		879
	<u>\$ 1,811</u>	<u>\$ 2,532</u>

4. Investments and investment revenue

	2000 (\$000s)		1999 (\$000s)	
	Carrying Value	Market Value	Carrying Value	Market Value
(a) Fixed term securities				
Federal Bonds	\$ 65,315	\$ 67,188	\$ 62,913	\$ 61,067
Provincial Bonds	37,030	37,626	40,670	38,976
Corporate Bonds	28,170	28,306	30,051	29,396
	<u>\$ 130,515</u>	<u>\$ 133,120</u>	<u>133,634</u>	<u>129,439</u>
Equities				
Canadian	9,787	10,525	7,232	8,537
United States	1,410	1,200	1,450	1,349
Overseas	1,777	1,685	1,708	2,022
	<u>12,974</u>	<u>13,410</u>	<u>10,390</u>	<u>11,908</u>
Cash and short term investments				
Cash	3	3	40	40
Treasury Bills	3,959	3,959	800	800
Accrued interest income	1,577	1,577	1,848	1,848
	<u>5,539</u>	<u>5,539</u>	<u>2,688</u>	<u>2,688</u>
Custodial and investment management fee accrual				
	(141)		(55)	
Deferred investment gains	(11,412)		(13,660)	
	<u>\$ 137,475</u>	<u>\$ 152,069</u>	<u>\$ 132,997</u>	<u>\$ 144,035</u>
(b) Deferred investment gains				
Balance, beginning of year	\$ 13,660		\$ 18,612	
Realized net losses for the year	(1,407)		(3,207)	
Amortization	(841)		(1,745)	
Balance, end of year	<u>\$ 11,412</u>		<u>\$ 13,660</u>	
(c) Investment Income				
Fixed term investments	\$ 7,861		\$ 10,145	
Equity investments	2,624		657	
Short term investments	2		4	
Less: Investment fees	(346)		(232)	
	<u>10,141</u>		<u>10,574</u>	
Amortization of investment gains	841		1,745	
Investment Income	<u>\$ 10,982</u>		<u>\$ 12,319</u>	

4. Investments and Investment Revenue (continued)

The following is the total amortization of deferred investment gains to be credited to income:

2001	\$	988
2002		928
2003		873
2004		837
2005 to 2032		<u>7,786</u>
	\$	<u>11,412</u>

The fixed term investments mature as follows:

1 to 5 years	\$	45,664
6 to 10 years		32,395
11 to 20 years		18,834
More than 20 years		<u>33,622</u>
	\$	<u>130,515</u>

The Board has established a policy for the management of the investment process, utilizing external investment portfolio managers. The portfolio managers' compliance with this investment policy is monitored on a regular basis.

Credit Risk Management

Credit risk on financial instruments arises from the possibility that the issuer of a fixed-term instrument fails to meet its obligations. Therefore, short term investments must have a credit rating of at least R1, and long term investments require a rating of A or higher by the Dominion Bond Rating Service in order to be eligible for consideration as an investment. Diversification of credit risk is managed by limiting the exposure in a single private institution to 5% of the portfolio.

Foreign Exchange Risk Management

The board has investments in equities denominated in foreign currencies. It does not undertake long term hedging strategies for the currency risk of foreign investments. The Board undertakes long term investment strategies: however, currency fluctuations may affect short term returns. These fluctuations are not expected to affect the long term position of the investment portfolio. Investments in US\$ total \$2,202,585 (1999 - \$2,176,493)

Interest Rate Risk Management

Fluctuations in interest rates can impact the market value of the fixed income portfolio, as well as shift investor preferences among asset classes. Interest rate risk is minimized by managing the duration of the fixed income portfolio.

5. Capital Assets

			2000 (\$000s)	1999 (\$000s)
	Cost	Accumulated Amortization	Net Carrying Value	Net Carrying Value
Land	\$ 390	\$ -	\$ 390	\$ 390
Buildings	3,139	(672)	2,467	2,457
Furniture and equipment	498	(374)	124	108
Computer equipment	1,551	(1,183)	368	477
	<u>\$ 5,578</u>	<u>\$ (2,229)</u>	<u>\$ 3,349</u>	<u>\$ 3,432</u>

6. Benefits Liability

	2000 (\$000s)				1999 (\$000s)
	Medical Aid & Compensation	Pension	Annuity	Total	Total
Balance, beginning of year	\$ 50,851	\$ 21,410	\$ 1,883	\$ 74,144	\$ 67,489
Add: Claims Costs incurred:					
Current year injuries	11,445	1,126		12,571	11,074
Prior years' injuries	882	410	394	1,686	2,769
	<u>12,327</u>	<u>1,536</u>	<u>394</u>	<u>14,257</u>	<u>13,843</u>
Less: Claims payments made:					
Current year injuries	1,839			1,839	1,645
Prior years' injuries	4,581	1,178	11	5,770	5,543
	<u>6,420</u>	<u>1,178</u>	<u>11</u>	<u>7,609</u>	<u>7,188</u>
Balance, end of year	<u>\$ 56,758</u>	<u>\$ 21,768</u>	<u>\$ 2,266</u>	<u>\$ 80,792</u>	<u>\$ 74,144</u>

The benefits liability includes a provision for all benefits provided by current legislation, policies and administrative practices in respect of existing claims. These claims were discounted to a present value at a real interest rate of 2.0% (1999 - 2.0%). No provision has been made for claims related to known latent occupational diseases where the claim has not yet been reported and the year of disablement would be in a subsequent period.

The benefits liability was determined using accepted actuarial practices in accordance with standards established by the Canadian Institute of Actuaries. The actuarial present value of future benefits reflects management's long-term estimates of economic and actuarial assumptions and methods, which were based on past experience modified for current trends. As these assumptions may change over time to reflect underlying economic or legislated conditions, it is possible that such changes could cause a material change to the actuarial present value of future benefit payments. The following key long-term economic assumptions were used in the actuarial valuation of the benefits liabilities:

6. Benefits Liability (continued)

	<u>2000</u>	<u>1999</u>
Future net investment rate of return	3%	3%
Future net increase in medical aid	1.50%	1.50%
Future net increase in compensation	1.50%	1.50%
Future net increase in rehabilitation	3%	3%

7. Reserves

	Prevention and Benefit Enhancement Reserve	
	2000	1999
	(\$000s)	(\$000s)
Balance, beginning of year	\$ 12,531	\$ 11,371
Current allocation	1,241	1,160
Balance, end of year	<u>\$ 13,772</u>	<u>\$ 12,531</u>

	Target Reserve				1999
	2000			Total	(\$000s)
	(\$000s)				(\$000s)
	Catastrophic Claims	Adverse Claims Experience	Occupational Disease Claims	Total	Total
Balance, beginning of year	\$ 12,000	\$ 9,945	\$ 5,190	\$ 27,135	\$ 25,548
Current allocation	480	1,074	466	2,020	1,587
Balance, end of year	<u>\$ 12,480</u>	<u>\$ 11,019</u>	<u>\$ 5,656</u>	<u>\$ 29,155</u>	<u>\$ 27,135</u>

Total available for reserves	\$ 58,099	\$ 59,935
Less: Prevention and Benefit Enhancement Reserve	13,772	12,531
Target Reserve	29,155	27,135
Rate Transition Reserve, end of year	<u>\$ 15,172</u>	<u>\$ 20,269</u>

8. Recoveries and Miscellaneous

	Current Year Injuries	Prior Years Injuries	2000 (\$000s) Total	1999 (\$000s) Total
Subrogated claims recovery	\$ -	\$ 39	\$ 39	\$ 75
Supplementary compensation benefits		406	406	439
Occupational health and safety expense recovery from government	330	-	330	330
Miscellaneous	30	-	30	62
	<u>\$ 360</u>	<u>\$ 445</u>	<u>\$ 805</u>	<u>\$ 906</u>

The board recovered \$330,334 (1999 - \$150,000) for subrogated claims. Out of the amount \$290,830 (1999 - \$75,000) is payable to claimants or for the cost of legal actions. The remaining \$39,503 (1999 - \$75,000) offsets the future benefits payments. These payments were previously provided for in the benefits liability.

9. Related Party Transactions

As an agency of the Government of the Yukon, the board is related to all government departments, agencies and Crown corporations. The Compensation Fund paid the Government \$556,000 (1999 - \$539,000) for building maintenance, computer, office supplies, payroll, recruitment, vehicle and rehabilitation services. The Fund also reimbursed \$3,670,000 for payroll costs (1999 - \$3,017,000). Revenues totaled \$406,000 (1999 - \$439,000) for supplementary benefits, and \$330,000 (1999 - \$330,000) for occupational health and safety mine rescue expenses. All mainframe computer software is owned by the Government.

Any other transactions with the Government are part of the ordinary course of business. Effective January 1, 1993, all Government employees are covered by the Fund. The board received assessments from the Government totaling \$2,028,919 (1999 - \$1,701,775) for post-92 claims. Pre-93 claims costs of \$160,000 (1999 - \$77,000) were reimbursed to the Fund.

10. Contingent Liabilities

The board is responsible for future costs of claims relating to certain latent occupational diseases which may have occurred in the current year or previously, but which may not be recognized and reported for a number of years due to the extended latency period of such diseases. Because of the absence of reliable evidence and data pertaining to these matters, these liabilities cannot be estimated. Therefore, a separate amount has been allocated in the target reserve.

11. Administration and Prevention Expenses

	<u>2000</u>		<u>1999</u>
	(000's)		(000's)
Salaries and benefits	\$ 3,948	\$	3,346
Consulting and professional	499		829
Amortization	481		432
Automobile and travel	200		185
Computer systems	196		162
Buildings	187		180
Staffing and recruitment	142		92
Communications	140		135
Board expenses	140		101
General administration	94		44
Printing and publications	89		98
Supplies and stationery	48		49
Furniture and equipment	16		20
	<u>\$ 6,180</u>	\$	<u>5,673</u>

The net expenses have been allocated as follows:

Current year	4,195		3,827
Prior years	750		722
	<u>\$ 4,945</u>	\$	<u>4,549</u>
Workers' Advocate office	195		181
Appeal Tribunal office	144		
Occupational health & safety	896		943
	<u>\$ 6,180</u>	\$	<u>5,673</u>

12. Comparative figures

Certain comparative figures for 1999 have been reclassified to conform with 2000 presentation.