COMPENSATION FUND (YUKON)

FINANCIAL STATEMENTS

December 31, 2001

(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, 2001, 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 her opinion on the financial statements. She also considers whether the transactions that come to her 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 22, 2002

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Honourable Sue Edelman
Minister responsible for the Compensation Fund (Yukon)

I have audited the balance sheet of the Compensation Fund (Yukon) as at December 31, 2001 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, 2001 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 attention during my audit of the financial statements have, in all significant respects, been in accordance with the *Workers' Compensation Act* and regulations, the *Occupational Health and Safety Act* and regulations and the *Financial Administration Act* and regulations.

Ron Thompson

Ronald C. Thompson, CA
Assistant Auditor General
for the Auditor General of Canada
Ottawa, Canada
March 22, 2002

Compensation Fund
Balance Sheet
As at December 31

	2001 ($000s)	2000 ($000s)
Assets		
Accounts receivable (note 3)	$ 216	$ 260
Investments (note 4)	136,874	137,475
Capital assets (note 5)	3,284	3,349
	$ 140,374	$ 141,084
Liabilities and Reserves		
Bank overdraft	$ 75	$ 382
Accounts payable (note 3)	2,575	1,811
Benefits liability (note 6)	78,174	80,792
Total liabilities	80,824	82,985
Reserves (note 7)	59,550	58,099
	$ 140,374	$ 141,084

Contingencies (note 10)

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

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

	2001 ($000s) Total	2000 ($000s) Total
Revenue		
Assessments	$ 7,165	$ 6,814
Investment (note 4)	9,004	10,982
Recoveries and miscellaneous	412	805
	16,581	18,601
Expenses		
Claims expenses (note 6)	17,548	14,257
Administration and prevention (note 11)		
Administration	5,464	4,945
Occupational health and safety	952	896
Workers Advocate office	309	195
Appeal Tribunal office	194	144
Total expenditures	24,468	20,437
Operating deficit for the year	(7,887)	(1,836)
Effect of change in assumptions (note 6)	9,337	-
Final operating surplus (deficit)	1,450	(1,836)
Reserves, beginning of year	58,099	59,935
Reserves, end of year (note 7)	$ 59,549	$ 58,099

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

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

	2001 ($000s)	2000 ($000s)
Cash flows from operating activities		
Cash received from:		
Employers, for assessments	$ 6,783	$ 5,573
Recoveries and miscellaneous	821	1,077
Investment revenue	8,686	12,250
	16,290	18,900
Cash paid to:		
Claimants or third parties on their behalf	(10,764)	(7,754)
Suppliers, for administrative and other goods and services	(6,143)	(5,676)
	(16,907)	(13,430)
Cash (used in) provided by operating activities	(617)	5,470
Cash flows from investing activities		
Sales and maturities of investments	156,043	145,706
Proceeds on disposal of capital assets	1	1
Purchases of investments	(154,648)	(151,163)
Purchases of capital assets	(472)	(380)
Cash provided by (used in) investing activities	924	(5,836)
Net increase (decrease) in cash	307	(366)
Bank overdraft, beginning of year	(382)	(16)
Bank overdraft, end of year	$ (75)	$ (382)

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

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. The benefit liability contains a provision for future payments on claims that have not been finalized to date. 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.

(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.

2. Significant Accounting Policies (continued)

(b) Allocation of reserves (continued)

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 or credited to the other two reserves and the total available for reserves.

(c) 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.

(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 Government of Yukon employees' compensation claims 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.

(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.

2. Significant Accounting Policies (continued)

(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) 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

(h) Employee future benefits

Under the conditions of employment, employees may qualify and earn employment benefits for vacation, sick, compensatory and personal leave, travel bonus, and severance benefits. The benefit obligation was determined on an actuarial basis. The key assumptions used were a liability discount rate of 7% and an annual rate of general escalation of 3%. The obligation for vacation leave, sick leave, and severance benefits were calculated using the projected benefit method pro-rated on service. The remainder was calculated assuming all employees would receive the benefits on valuation date.

(i) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles 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. This mainly affects claims expenses, benefits liability and the reserves. Actual results could materially differ from these estimates.

3. Accounts Receivable and Accounts Payable

	2001 ($000s)	2000 ($000s)
Receivable		
Assessments	$ 184	$ 194
Other receivables	32	66
	$ 216	$ 260
Payable		
Government of Yukon	$ 867	$ 275
Other payables	1,708	1,536
	$ 2,575	$ 1,811

4. Investments and investment revenue

	2001 ($000s)		2000 ($000s)	
	Carrying Value	Market Value	Carrying Value	Market Value
(a) Fixed-term securities				
Federal Bonds	$ 73,452	$ 74,527	$ 65,315	$ 67,188
Provincial Bonds	22,794	23,834	37,030	37,626
Corporate Bonds	35,087	36,120	28,170	28,306
	$ 131,333	$ 134,481	130,515	133,120
Equities				
Canadian	10,245	9,926	9,787	10,525
United States	1,355	1,091	1,410	1,200
Overseas	1,802	1,424	1,777	1,685
	13,402	12,441	12,974	13,410
Cash and short-term investments				
Cash	1	1	3	3
Treasury Bills	2,363	2,363	3,959	3,959
Accrued interest income	1,313	1,313	1,577	1,577
	3,677	3,677	5,539	5,539
Custodial and investment management fee accrual	(83)		(141)	
Deferred investment gains	(11,455)		(11,412)	
	$ 136,874	$ 150,599	$ 137,475	$ 152,069

4. Investments and Investment Revenue (continued)

	2001 ($000s)	2000 ($000s)
(b) Deferred investment gains		
Balance, beginning of year	$ 11,412	$ 13,660
Realized net gains for the year	1,125	(1,407)
Amortization	(1,082)	(841)
Balance, end of year	$ 11,455	$ 11,412

	2001 ($000s)	2000 ($000s)
(c) Investment Income		
Fixed-term investments	$ 7,914	$ 7,861
Equity investments	427	2,624
Short-term investments	5	2
Less: Investment fees	(424)	(346)
	7,922	10,141
Amortization of investment gains	1,082	841
Investment Income	$ 9,004	$ 10,982

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

2002	1,213
2003	1,005
2004	922
2005	825
2006 to 2032	7,490
	$ 11,455

The fixed-term investments mature as follows:

1 to 5 years	$ 61,397
6 to 10 years	40,270
11 to 20 years	10,104
More than 20 years	19,562
	$ 131,333

The weighted average interest rate for fixed-term securities at December 31, 2001 is 6.85% (2000-8.35%).

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.

In following its new investment policy, the board has engaged new investment portfolio managers. As a result, the Fund disposed of all of its equity investments in February 2002. This disposition resulted in a $1,076,000 loss, and this loss will be deferred and amortized over five years. New equity managers were appointed and the new managers have reinvested in different equities.

4. Investments and Investment Revenue (continued)

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. Investments in US$ total $2,073,482 (2000 - $2,202,585).

Interest Rate Risk Management

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

5. Capital Assets

	Cost	Accumulated Amortization	2001 Net Carrying Value ($000s)	2000 Net Carrying Value ($000s)
Land	$ 390	$ -	$ 390	$ 390
Buildings	3,188	(750)	2,439	2,467
Furniture and equipment	468	(366)	102	124
Computer equipment and software development	1,668	(1,315)	353	368
	$ 5,714	$ (2,430)	$ 3,284	$ 3,349

6. Benefits Liability

	2001 ($000s)				2000 ($000s)
	Medical Aid & Compensation	Pension	Annuity	Total	Total
Balance, beginning of year	$ 56,758	$ 21,768	$ 2,266	$ 80,792	$ 74,144
Effect of change in assumptions	(7,995)	(1,342)	-	(9,337) (1)	
Adjusted Balance, beginning of year	$ 48,763	$ 20,426	$ 2,266	$ 71,455	$ 74,144
Add: Claims Costs incurred:					
Current year injuries	10,038	-	-	10,038	12,571
Prior years' injuries	3,611	1,166	808	5,585	1,686
Impact of appeal decisions	1,925	-	-	1,925 (2)	-
	15,574	1,166	808	17,548	14,257
Less: Claims payments made:					
Current year injuries	1,966	-	-	1,966	1,839
Prior years' injuries	7,635	1,184	44	8,863	5,770
	9,601	1,184	44	10,829	7,609
Balance, end of year	$ 54,736	$ 20,408	$ 3,030	$ 78,174	$ 80,792

(1) Every three years, the methods and assumptions used to value the benefits liability are reviewed by the board's consulting actuary. As part of this review, the board revised its net investment rate of return to 3.5%. (2000 - 3%). The use of this new rate to discount claims costs to the present is the principal reason for a lower benefits liability valuation.

(2) During 2001, a number of claims were successfully appealed. As a result, a number of adjustments were made to the claims, including retro-active payments. With these retro-active adjustments to the claims data, the beginning of the year Benefits Liability was increased by $1,925,000.

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:

	2001	2000
Future net investment rate of return	3.50%	3.00%
Future net increase in medical aid	2.25%	1.50%
Future net increase in compensation	2.25%	1.50%
Future net increase in rehabilitation	3.50%	3.00%

7. Reserves

	Prevention and Benefit Enhancement Reserve	
	2001 ($000s)	2000 ($000s)
Balance, beginning of year	$ 13,772	$ 12,531
Current allocation	978	1,241
Balance, end of year	$ 14,750	$ 13,772

	Target Reserve				
	2001 ($000s)				2000 ($000s)
	Catastrophic Claims	Adverse Claims Experience	Occupational Disease Claims	Total	Total
Balance, beginning of year	$ 12,480	$ 11,019	$ 5,656	$ 29,155	$ 27,135
Current allocation	540	266	(184)	622	2,020
Balance, end of the year	$ 13,020	$ 11,285	$ 5,472	$ 29,777	$ 29,155

	2001	2000
Total available for reserves	$ 59,550	$ 58,099
Less: Prevention and Benefit Enhancement Reserve	14,750	13,772
Target Reserve	29,777	29,155
Rate Transition Reserve, end of year	$ 15,023	$ 15,172

8. Pension Fund

The Fund and employees of the board, who are deemed to be employees of the Government of the Yukon, make contributions to the Public Service Superannuation Plan administered by the Government of Canada. Effective April 1, 2000, the Fund's 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. The employer's contribution is currently 2.14 times (2000 - 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.

	2001	2000
Employees' contributions	$ 142,588	$ 130,146
Fund contributions	304,210	246,565
Total	$ 446,798	$ 376,711

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 $541,000 (2000 -$556,000) for building maintenance, computer, office supplies, payroll, recruitment, vehicle and rehabilitation services. The Fund also reimbursed $4,088,000 for payroll costs (2000 - $3,670,000). Revenues totaled $402,000 (2000 - $406,000) for supplementary benefits. Occupational health and safety mine rescue expenses were not recovered in 2001 (2000 - $330,000). 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 $2,134,804 (2000 - $2,028,919) for post-92 claims. Pre-93 claims costs of $380,000 (2000 - $160,000) 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. Due to the measurement uncertainty surrounding this estimate, the actual liability relating to these diseases may be materially different than the amount allocated.

In May 2002, the *Workers' Compensation Act* was amended to raise the annual maximum wage rate used to calculate benefits to workers injured before 1993. In addition, the *Spousal Compensation Act* was assented to in May 2002 to reinstate the benefits to spouses of deceased workers, whose benefits were terminated when the spouses remarried during the period April 1985 to April 1987. The board has yet to determine the impact of these legislative changes in its claims costs, benefits liability, and reserves.

11. Administration and Prevention Expenses

	2001 ($000s)	2000 ($000s)
Salaries and benefits	$ 4,397	$ 3,948
Consulting and professional	523	499
Amortization	508	481
Board expenses	232	140
Automobile and travel	227	200
Communications	215	140
Computer systems	209	196
Buildings	193	187
Staffing and recruitment	154	142
General administration	97	94
Printing and publications	94	89
Supplies and stationery	42	48
Furniture and equipment	29	16
	$ 6,919	$ 6,180

The net expenses have been allocated as follows:

	2001 ($000s)	2000 ($000s)
Administration	$ 5,464	$ 4,945
Occupational health & safety	952	896
Appeal Tribunal office	194	144
Workers' Advocate office	309	195
	$ 6,919	$ 6,180

12. Comparative figures

Certain comparative figures for 2000 have been reclassified to conform with 2001 presentation.