

COMPENSATION FUND (YUKON)

FINANCIAL STATEMENTS

December 31, 2003

(audited)

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

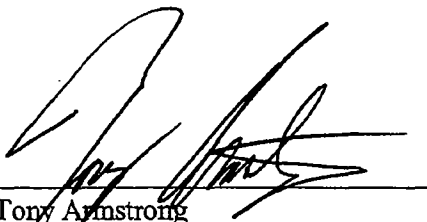
The management of the Yukon Workers' Compensation Health and Safety Board (the board) is responsible for establishing and maintaining a system of books, records, internal controls and management practices designed to provide reasonable assurance that reliable financial information is produced; Compensation Fund assets are safeguarded and controlled; transactions of the Compensation Fund 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 Compensation Fund. The financial statements as at December 31, 2003, 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 fulfills 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.

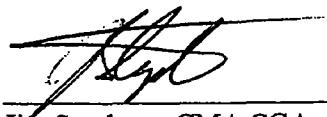
The Auditor General of Canada conducts an independent audit for the purpose of expressing her opinion on the financial statements. She also considers whether the transactions that come to her notice in the course of the audit are, in all significant respects, in accordance with specified legislation.

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 Compensation Fund.



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Tony Armstrong  
President and Chief Executive Officer



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Jim Stephens, CMA, CGA  
A/Vice President, Operations  
and Chief Financial Officer

April 30, 2004



## AUDITOR'S REPORT

To the Honourable Peter Jenkins,  
Minister responsible for the Compensation Fund

I have audited the balance sheet of the Compensation Fund as at December 31, 2003 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, 2003 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, the transactions of the 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, the *Occupational Health and Safety Act* and regulations and the *Financial Administration Act* and regulations.

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

Ottawa, Canada  
April 30, 2004

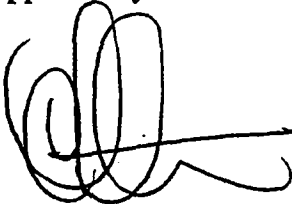
**Compensation Fund  
Balance Sheet  
As at December 31**

|                                 | <u>2003</u><br><u>(\$000s)</u> | <u>2002</u><br><u>(\$000s)</u> |
|---------------------------------|--------------------------------|--------------------------------|
| <b>Assets</b>                   |                                |                                |
| Accounts receivable (note 3)    | \$ 1,218                       | \$ 1,698                       |
| Investments (note 4)            | 123,440                        | 128,871                        |
| Property and equipment (note 5) | <u>3,920</u>                   | <u>3,741</u>                   |
|                                 | <u>\$ 128,578</u>              | <u>\$ 134,310</u>              |
| <b>Liabilities and Reserves</b> |                                |                                |
| Bank overdraft (note 9)         | \$ 933                         | \$ 682                         |
| Accounts payable (note 3)       | 4,001                          | 3,535                          |
| Benefits liability (note 6)     | <u>89,673</u>                  | <u>95,022</u>                  |
| Total liabilities               | 94,607                         | 99,239                         |
| Reserves (note 7)               | <u>33,971</u>                  | <u>35,071</u>                  |
|                                 | <u>\$ 128,578</u>              | <u>\$ 134,310</u>              |

Commitments and Contingencies (note 10, 11)

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

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



**Chair  
Craig Tuton**

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

|   | <u>2003</u><br><u>(\$000s)</u> | <u>2002</u><br><u>(\$000s)</u> |
|---|--------------------------------|--------------------------------|
| <b>Revenue</b>                              |                                |                                |
| Assessments                                 | \$ 8,428                       | \$ 7,749                       |
| Investment (note 4)                         | 5,102                          | 4,590                          |
| Recoveries and miscellaneous                | 477                            | 421                            |
|   | <u>14,007</u>                  | <u>12,760</u>                  |
| <b>Expenses</b>                             |                                |                                |
| Claims expenses (note 6)                    | 15,703                         | 29,465                         |
| Administration and prevention (note 12)     |                                |                                |
| Administration                              | 5,697                          | 5,662                          |
| Occupational health and safety              | 1,008                          | 907                            |
| Workers' Advocate                           | 378                            | 343                            |
| Appeal Tribunal                             | 187                            | 179                            |
| Employer Consultant                         | 137                            | 80                             |
| Congress 2004                               | 102                            | -                              |
| Contractor Safety                           | 42                             | -                              |
| Act Review                                  | 33                             | -                              |
| Business process improvement costs (note 5) | 156                            | 603                            |
| Total expenditures                          | <u>23,443</u>                  | <u>37,239</u>                  |
| Operating deficit for the year              | (9,436)                        | (24,479)                       |
| Effect of change in assumptions (note 6)    | 8,336                          | -                              |
| Final operating deficit                     | <u>(1,100)</u>                 | <u>(24,479)</u>                |
| Reserves, beginning of year                 | 35,071                         | 59,550                         |
| Reserves, end of year (note 7)              | <u>\$ 33,971</u>               | <u>\$ 35,071</u>               |

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

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

|  | <u>2003</u><br><u>(\$000s)</u> | <u>2002</u><br><u>(\$000s)</u> |
|--|--------------------------------|--------------------------------|
| <b>Cash flows from operating activities</b>                |                                |                                |
| Cash received from:  |                                |                                |
| Employers, for assessments                                 | \$ 8,515                       | \$ 7,477                       |
| Recoveries and miscellaneous                               | 887                            | 519                            |
| Investment revenue   | 5,276                          | 6,114                          |
|  | <u>14,678</u>                  | <u>14,110</u>                  |
| Cash paid to:  |                                |                                |
| Claimants or third parties on their behalf                 | (12,718)                       | (12,766)                       |
| Suppliers, for administrative and other goods and services | (7,023)                        | (7,924)                        |
|  | <u>(19,741)</u>                | <u>(20,690)</u>                |
| Cash used in operating activities                          | <u>(5,063)</u>                 | <u>(6,580)</u>                 |
| <b>Cash flows from investing activities</b>                |                                |                                |
| Sales and maturities of investments                        | 113,798                        | 433,024                        |
| Proceeds on disposal of capital assets                     | 1                              | 1                              |
| Purchases of investments                                   | (108,541)                      | (426,245)                      |
| Purchases of capital assets                                | (446)                          | (807)                          |
| Cash provided by investing activities                      | <u>4,812</u>                   | <u>5,973</u>                   |
| Net decrease in cash                                       | (251)                          | (607)                          |
| Bank overdraft, beginning of year                          | (682)                          | (75)                           |
| Bank overdraft, end of year                                | <u>\$ (933)</u>                | <u>\$ (682)</u>                |

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

**Compensation Fund**  
**Notes to Financial Statements**  
**December 31, 2003**

**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. In 1992, the board was made responsible for the administration of the *Occupational Health and Safety Act* and regulations to advance strategies for preventing workplace injuries in the territory.

**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 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 benefits liability includes a provision for future payments on claims that have not been finalized to date. It also includes a provision for all benefits provided by current legislation, policies and administrative practices in respect of existing claims. These claims are discounted to a present value at a real interest rate of 3.5%. 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 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 24 months. 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 Fund's assets and liabilities is credited to reserves.

## 2. Significant Accounting Policies (continued)

### (b) Allocation of reserves (continued)

The total available for reserves is allocated as follows:

- (i) 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
- (ii) The target reserve 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
- (iii) Rate Transition Reserve - The rate transition reserve will be the balance in excess of the other reserves. If there is no excess then the balance will be zero and the overall deficiency in reserves will be identified.

### (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 board changed the amortization period for the deferral of gains and losses realized on the disposal of fixed-term investments in 2003 to align with the current industry standard used by other Canadian Compensation Funds. Previously, the amortization period extended over the life of the bond. The change was treated prospectively as required under current Canadian generally accepted accounting principles.

Fixed-term investments, having terms greater than one year, consisting primarily of bonds, are recorded at cost, net of amortization of premiums/discounts on purchase. Net realized gains and losses on disposal of fixed-term investments during the year are deferred and amortized on a straight line basis over a five-year period.

Fixed-term investments, having terms less than or equal to one year, consisting primarily of treasury bills, are recorded at amortized cost. Gains and losses realized on disposal of these investments are recognized in the year of disposition.

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 on a straight-line basis over five years.

Investments denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the end of the year. Revenue from investments is translated at the rate in effect at the time of receipt. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are amortized into investment income over a five-year period.

The carrying value of an investment portfolio is written down to its market value when a permanent decline is deemed to have occurred and a provision for the loss in value is included in income in the same period.



## 2. Significant Accounting Policies (continued)

### (d) Assessments

Assessment revenue is 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 (Note 9).

### (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 (Note 9).

### (f) Third party subrogated claims

In certain limited circumstances, under section 56 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 in the benefits liability for possible future subrogated recoveries because of their contingent nature.

### (g) Property and equipment

Property and equipment 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 systems and equipment | 3 years       |
| Systems development            | 5 to 10 years |

### (h) Employee future benefits

#### *Non-pension Benefits*

Under 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 is determined on an actuarial basis. The key assumptions used are 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 are calculated using the projected benefit method prorated on service. The remainder is calculated assuming all employees receive the benefits on valuation date.

## 2. Significant Accounting Policies (continued)

### (h) Employee future benefits (continued)

#### *Pension Benefits*

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The board's contribution to the Plan reflects the full cost of the employer contributions. This amount is currently based on a multiple of the employees' required contributions, and may change from time to time depending on the experience of the Plan. These contributions represent the total pension obligations of the board and are charged to operations on a current basis. The board is not currently required to make contributions with respect to actuarial deficiencies of the Public Service Superannuation Account (PSSA).

### (i) Use of estimates

The preparation of financial statements in accordance with the Canadian generally accepted accounting principles requires management to make certain 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 differ materially from these estimates.

## 3. Accounts Receivable and Accounts Payable

|                              | 2003<br>(\$000s) | 2002<br>(\$000s) |
|------------------------------|------------------|------------------|
| <b>Receivable</b>            |                  |                  |
| Assessments                  | \$ 718           | \$ 790           |
| Government of Yukon (Note 9) | 435              | \$ 811           |
| Other receivables            | 65               | 97               |
|                              | <u>\$ 1,218</u>  | <u>\$ 1,698</u>  |
| <b>Payable</b>               |                  |                  |
| Assessments                  | \$ 339           | \$ 324           |
| Government of Yukon (Note 9) | 1,364            | 1,091            |
| Other payables               | 2,298            | 2,120            |
|                              | <u>\$ 4,001</u>  | <u>\$ 3,535</u>  |

#### 4. Investments and Investment Revenue

|  | 2003<br>(\$000s)  |                   | 2002<br>(\$000s)  |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | Carrying<br>Value | Market<br>Value   | Carrying<br>Value | Market<br>Value   |
| <b>(a) Fixed-term securities</b>       |                   |                   |                   |                   |
| Federal Bonds                          | \$ 22,903         | \$ 23,372         | \$ 21,082         | \$ 21,846         |
| Provincial Bonds                       | 9,221             | 9,671             | 8,678             | 9,133             |
| Corporate Bonds                        | 27,467            | 28,903            | 30,416            | 31,709            |
| Municipal Bonds                        | 880               | 912               | 652               | 677               |
|  | <u>60,471</u>     | <u>62,858</u>     | <u>60,828</u>     | <u>63,365</u>     |
| <b>Equities</b>                        |                   |                   |                   |                   |
| Canadian                               | 19,870            | 21,882            | 24,028            | 21,948            |
| United States                          | 13,441            | 11,947            | 14,692            | 12,376            |
| Overseas                               | 32,182            | 30,984            | 35,050            | 31,779            |
|  | <u>65,493</u>     | <u>64,813</u>     | <u>73,770</u>     | <u>66,103</u>     |
| <b>Cash and short-term investments</b> |                   |                   |                   |                   |
| Cash                                   | 186               | 185               | 230               | 231               |
| Treasury Bills                         | 3,310             | 3,279             | 2,212             | 2,214             |
| Accrued interest income                | 841               | 841               | 913               | 854               |
|  | <u>4,337</u>      | <u>4,305</u>      | <u>3,355</u>      | <u>3,299</u>      |
| Management fee accrual                 | (80)              |                   | (70)              |                   |
| Deferred realized investment gains     | (6,781)           |                   | (9,012)           |                   |
|  | <u>\$ 123,440</u> | <u>\$ 131,976</u> | <u>\$ 128,871</u> | <u>\$ 132,767</u> |

Management reviews the investment portfolio on a regular basis and considers the decline in the market values of the US and Overseas equity investments to be temporary and is not expected to affect the long-term position of the portfolio.

|  | 2003            | 2002            |
|--|-----------------|-----------------|
|  | (\$000s)        | (\$000s)        |
| <b>(b) Deferred investment gains or (losses)</b> |                 |                 |
| <b>Fixed-term securities</b>                     |                 |                 |
| Balance, beginning of year                       | \$ 11,944       | \$ 11,455       |
| Realized net gains for the year                  | 688             | 2,037           |
| Amortization                                     | (2,526)         | (1,548)         |
| Balance, end of year                             | <u>10,106</u>   | <u>11,944</u>   |
| <b>Equities</b>                                  |                 |                 |
| Balance Beginning of year                        | (2,932)         | -               |
| Realized net losses for the year                 | (1,408)         | (3,665)         |
| Amortization                                     | 1,015           | 733             |
| Balance, end of year                             | <u>(3,325)</u>  | <u>(2,932)</u>  |
| <b>Total</b>                                     | <u>\$ 6,781</u> | <u>\$ 9,012</u> |

#### 4. Investments and Investment Revenue (continued)

|  | 2003<br>(\$000s)     | 2002<br>(\$000s) |
|--|----------------------|------------------|
| <b>(c) Investment Income</b>                         |                      |                  |
| Dividends and interest                               |                      |                  |
| Fixed-term   | \$ 3,180             | \$ 4,451         |
| Equity   | 1,366                | 1,305            |
| Short-term   | -                    | -                |
|  | <u>4,546</u>         | <u>5,756</u>     |
| Adjust for:  |                      |                  |
| Amortized realized and unrealized gains and (losses) | 1,004 <sup>(1)</sup> | (749)            |
|  | <u>5,550</u>         | <u>5,007</u>     |
| Deduct:  |                      |                  |
| Investment management fees                           | (448)                | (417)            |
| Investment Income                                    | <u>\$ 5,102</u>      | <u>\$ 4,590</u>  |

The following is the total amortization of net deferred investment gains and (losses) to be credited to income:

|      | Total           |
|------|-----------------|
| 2004 | \$ 1,512        |
| 2005 | 1,512           |
| 2006 | 1,512           |
| 2007 | 2,245           |
|      | <u>\$ 6,781</u> |

The fixed-term investments mature as follows:

|                 |                  |             |
|-----------------|------------------|-------------|
| 1 to 5 years    | \$ 15,097        | 25%         |
| 6 to 10 years   | 33,545           | 55%         |
| greater than 10 | 11,829           | 20%         |
|                 | <u>\$ 60,471</u> | <u>100%</u> |

Actual annual investment market returns:

|                       | 2003<br>(%) | 2002<br>(%) |
|-----------------------|-------------|-------------|
| Total Fund            | 8.2         | -3.7        |
| Canadian Equities     | 26.2        | -10.1       |
| U.S. Equities         | 0.6         | -22.1       |
| Overseas Equities     | 7.6         | -19.9       |
| Fixed-Term Securities | 6.4         | 8.7         |

#### 4. Investments and Investment Revenue (continued)

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 Fund 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 \$16,100,665 (2002 - \$16,240,801). Investments in European Currency total \$378,515 (2002 - \$444,654).

##### 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-term portfolio.

<sup>(1)</sup> Includes \$515,505 due to change in amortization periods (see note 2c)

#### 5. Property and equipment

|                                | <u>Cost</u>             | <u>Accumulated<br/>Amortization</u> | <u>2003<br/>Net Carrying<br/>Value<br/>(\$000s)</u> | <u>2002<br/>Net Carrying<br/>Value<br/>(\$000s)</u> |
|--------------------------------|-------------------------|-------------------------------------|---|---|
| Land                           | \$ 390                  | \$ -                                | \$ 390  | \$ 390  |
| Buildings                      | \$ 3,247                | (910)                               | 2,337   | 2,378   |
| Furniture and equipment        | \$ 509                  | (414)                               | 95  | 120   |
| Computer systems and equipment | \$ 1,742                | (1,634)                             | 108   | 219   |
| Systems development            | <sup>(1)</sup> \$ 1,043 | (53)                                | 990   | 634   |
|                                | <u>\$ 6,931</u>         | <u>\$ (3,011)</u>                   | <u>\$ 3,920</u>                                     | <u>\$ 3,741</u>                                     |

<sup>(1)</sup> The Achieving Better Customer Service project incurred expenditures of \$531,000 in 2003 (2002 - \$1,237,000). Of this amount, \$375,000 (2002 - \$634,000) was capitalized to the project and \$156,000 (2002 - \$603,000), which related to business process improvements, was expensed in the current year. The financial system component of the project was substantially complete in 2003 (\$368,790) and amortization began in the current year. As of Dec. 31, 2003, \$639,538 relating to the claims and assessment components of the project are capitalized but will not be depreciated until the systems are substantially complete.

## 6. Benefits Liability

|                                     | 2003<br>(\$000s)              |           |          |                        | 2002<br>(\$000s)      |
|-------------------------------------|-------------------------------|-----------|----------|------------------------|-----------------------|
|                                     | Medical Aid &<br>Compensation | Pension   | Annuity  | Total                  | Total                 |
| Balance, beginning of year          | \$ 70,269                     | \$ 21,011 | \$ 3,742 | \$ 95,022              | \$ 78,174             |
| Effects of change in assumptions    | (8,336)                       | -         | -        | (8,336) <sup>(1)</sup> | -                     |
| Adjusted Balance, beginning of year | \$ 61,933                     | \$ 21,011 | \$ 3,742 | \$ 86,686              | \$ 78,174             |
| Add claims costs incurred:          |                               |           |          |                        |                       |
| Current year injuries               | 9,702                         | -         | -        | 9,702                  | 11,157                |
| Prior years' injuries               | 2,912                         | 2,400     | 689      | 6,001                  | 18,308 <sup>(2)</sup> |
|                                     | 12,614                        | 2,400     | 689      | 15,703                 | 29,465                |
| Less claims payments made:          |                               |           |          |                        |                       |
| Current year injuries               | 1,950                         | -         | -        | 1,950                  | 2,525                 |
| Prior years' injuries               | 9,328                         | 1,205     | 233      | 10,766                 | 10,092                |
|                                     | 11,278                        | 1,205     | 233      | 12,716                 | 12,617                |
| Balance, end of year                | \$ 63,269                     | \$ 22,206 | \$ 4,198 | \$ 89,673              | \$ 95,022             |

<sup>(1)</sup> The actuarial assumption for conservatism in the benefits liability was changed in 2003. The conservatism assumption relates to the level of confidence that the benefits liability will be sufficient to cover claims costs in a certain percentage of cases in future years. The previous conservatism ratio was developed in 1997 using the five years of claims data available at that time. Based on additional claims data resulting from a longer claims history the actuary was able to determine a more appropriate level of conservatism based on the Fund's overall claims experience. The change resulted in a reduction in the liability of \$8,336,000.

<sup>(2)</sup> The Yukon Government passed legislation in 2002 to amend the *Workers' Compensation Act*. This amendment provided increases to 26 injured workers who were still in receipt of compensation benefits as a result of a disability under the 1986 *Workers' Compensation Act* (Bill 73). The amendment to the Act raised the wage rate for those workers to the 2002 level of \$65,000 and provided that it will be indexed annually. The estimated current and future cost of this amendment is \$5,400,000 (See note 7).

The following key long-term economic assumptions were used in the actuarial valuation of the benefits liability:

|                                       | 2003  | 2002  |
|---------------------------------------|-------|-------|
| Future net investment rate of return  | 3.50% | 3.50% |
| Future net increase in medical aid    | 2.25% | 2.25% |
| Future net increase in compensation   | 2.25% | 2.25% |
| Future net increase in rehabilitation | 3.50% | 3.50% |

## 6. Benefits Liability (continued)

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 fair value for the benefits liability is not readily determinable.

## 7. Reserves

The Board's review of the structure of the reserves, which began in 2003, is expected to continue through 2004. Until this review is completed, the Board felt that it would be premature to make any changes to the reserves.

In 2003 the Board decided that the Prevention and benefit enhancement reserve should be reduced by \$5,800,000. This was to cover the expenses of Bill 73 (\$5,400,000), which increased benefits of certain workers, and Bill 64 (\$400,000), which paid benefits to surviving spouses or common-law partners.

Allocations to the reserves in the current year are as follows:

|   | <b>Prevention and<br/>benefit enhancement<br/>reserve</b> |                  |
|---|---|------------------|
|   | <b>2003</b>   | <b>2002</b>      |
|   | <b>(\$000s)</b>   | <b>(\$000s)</b>  |
| Balance, beginning of year                | \$ 15,309   | \$ 14,750        |
| Less adjustments to prior year allocation | (5,800)   |                  |
| Current allocation                        | 428   | 559              |
| Balance, end of year                      | <u>\$ 9,937</u>   | <u>\$ 15,309</u> |

|                            | <b>Target Reserve</b>  |                                 |                                   |                  |                  |
|----------------------------|------------------------|---------------------------------|-----------------------------------|------------------|------------------|
|                            | <b>2003</b>            |                                 |                                   | <b>2002</b>      |                  |
|                            | <b>(\$000s)</b>        |                                 |                                   | <b>(\$000s)</b>  |                  |
|                            | Catastrophic<br>Claims | Adverse<br>Claims<br>Experience | Occupational<br>Disease<br>Claims | Total            | Total            |
| Balance, beginning of year | \$ 13,240              | \$ 13,498                       | \$ 6,652                          | \$ 33,390        | \$ 29,777        |
| Current allocation         | (80)                   | (766)                           | (375)                             | (1,221)          | 3,613            |
| Balance, end of the year   | <u>\$ 13,160</u>       | <u>\$ 12,732</u>                | <u>\$ 6,277</u>                   | <u>\$ 32,169</u> | <u>\$ 33,390</u> |

## 7. Reserves (continued)

|  | 2003<br>(\$000s) | 2002<br>(\$000s) |
|--|------------------|------------------|
| Prevention and benefit enhancement reserve | \$ 9,937         | \$ 15,309        |
| Target reserve                             | 32,169           | 33,390           |
| Rate transition reserve, end of year       | -                | -                |
| Total required reserves, end of year       | \$ 42,106        | \$ 48,699        |
| Deficiency in reserve funding              | 8,135            | 13,628           |
| Total reserves                             | <u>\$ 33,971</u> | <u>\$ 35,071</u> |

## 8. Pension Fund

During the year, the Public Service Superannuation Plan required the board to contribute to the PSSA at a rate of 2.14 times the employees' contributions.

|                          | 2003              | 2002              |
|--------------------------|-------------------|-------------------|
| Employees' contributions | \$ 168,822        | \$ 168,511        |
| Fund contributions       | 360,561           | 359,763           |
| Total                    | <u>\$ 529,383</u> | <u>\$ 528,274</u> |

## 9. Related Party Transactions

As an agency of the Government of Yukon, the board is related to all government departments, agencies and Crown corporations. The board enters into transactions with these entities in the normal course of business. All mainframe computer software is owned by the Government.

The Compensation Fund paid the Government \$633,000 (2002 - \$502,000) for building maintenance, computer, office supplies, payroll processing, recruitment, vehicle and rehabilitation services. The Fund also reimbursed the Government for payroll costs of \$4,866,000 (2002 - \$4,614,000).

The Government pays certain claims costs to the Compensation Fund for claims prior to 1993 and also reimburses the cost of supplementary benefits pursuant to the Yukon Workers' Compensation Supplementary Benefits Ordinance (note 2d,e).

As at December 31, 2003, balances due to and from related parties were as follows:

|  | 2003<br>(\$000s) | 2002<br>(\$000s) |
|--|------------------|------------------|
| Due to Government of Yukon                 | \$ 1,364         | \$ 1,091         |
| Due from Government of Yukon - Recoveries  | \$ 435           | \$ 811           |
| Due from Government of Yukon - Assessments | \$ 155           | \$ 264           |



## 9. Related Party Transactions (continued)

The Government of Yukon is disputing its obligation to reimburse the board for \$295,346 of costs associated with certain pre-93 claims paid in 2003 and the associated claims administration fees of \$44,302. No allowance has been made against this recovery.

Effective January 1, 1993, all Government employees were covered by the Fund. Revenues and recoveries from the Government of Yukon as at December 31, 2003 were as follows:

|                                     | <u>2003</u>  | <u>2002</u>  |
|-------------------------------------|--------------|--------------|
| Assessments                         | \$ 2,625,641 | \$ 2,236,364 |
| Pre-93 claims costs                 | \$ 537,468   | \$ 677,000   |
| Supplementary compensation benefits | \$ 461,000   | \$ 408,000   |

The board has access to the Government of Yukon's overall line of credit facility with its banker. This access provides the board with overdraft coverage when needed.

## 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, an amount has been included in the target reserve.

## 11. Commitments

The board has commitments (excluding claims costs) for the next five years, in thousands of dollars, as follows:

|      |               |
|------|---------------|
| 2004 | \$ 245        |
| 2005 | 177           |
| 2006 | 89            |
| 2007 | -             |
| 2008 | -             |
|      | <u>\$ 511</u> |

These commitments include the lease of office space and contribution agreements.

## 12. Administration and Prevention Expenses

|                             | 2003<br>(\$000s) | 2002<br>(\$000s) |
|-----------------------------|------------------|------------------|
| Salaries and benefits       | \$ 5,153         | \$ 4,844         |
| Consulting and professional | 532              | 426              |
| Amortization                | 366              | 347              |
| Buildings                   | 298              | 167              |
| General administration      | 217              | 134              |
| Computer systems            | 206              | 221              |
| Board expenses              | 192              | 249              |
| Communications              | 186              | 223              |
| Automobile and travel       | 184              | 212              |
| Printing and publications   | 115              | 148              |
| Staffing and recruitment    | 82               | 123              |
| Supplies and stationery     | 44               | 46               |
| Furniture and equipment     | 9                | 31               |
|                             | <u>\$ 7,584</u>  | <u>\$ 7,171</u>  |

The net expenses have been allocated as follows:

|                              |                 |                 |
|------------------------------|-----------------|-----------------|
| Administration               | \$ 5,697        | \$ 5,662        |
| Occupational Health & Safety | 1,008           | 907             |
| Workers' Advocate            | 378             | 343             |
| Appeal Tribunal              | 187             | 179             |
| Employer Consultant          | 137             | 80              |
| Congress 2004                | 102             | -               |
| Contractor Safety            | 42              | -               |
| Act Review                   | 33              | -               |
|                              | <u>\$ 7,584</u> | <u>\$ 7,171</u> |

## 13. Fair value

The carrying value of the bank overdraft, accounts receivable, and accounts payable approximate their fair value given their short-term nature. The fair value of the equity and fixed-term investments is market value as at December 31.

## 14. Comparative Figures

Certain prior year's figures have been reclassified to conform with the current year's presentation.