

**COMPENSATION FUND (YUKON)**

**FINANCIAL STATEMENTS**

**December 31, 2004**

**(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, 2004, 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.



Gerry Meier  
A/President and Chief Executive Officer



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

July 7, 2005



# Actuarial Certification

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**To the Members of the Yukon Workers' Compensation, Health and Safety Board**

We have completed an actuarial valuation as at December 31, 2004 of the benefits liability payable in the future for insured employers under the Yukon Workers' Compensation Act, in respect to claims that occurred prior to the valuation date.

We have analyzed the claims data on which the valuation has been based and have performed tests to confirm the reasonableness of the data and its consistency with the data used for valuations in prior years. In our opinion, the data is sufficient and reliable for the purposes of this valuation.

The actuarial valuation of the benefits liability of \$96,793,000 represents the actuarial present value at December 31, 2004 of all expected payments which will be made in future years and in respect of all claims occurring on or before December 31, 2004.

The valuation was based on the provisions of the Yukon Workers' Compensation Act in effect as of December 31, 2004. The net interest rates used to discount future claim payments make implicit provision for future increases in payment levels. The benefits liability includes provision for claims arising in the future in respect of latent occupational diseases only to the extent that such claims have been experienced in the past. It also includes provision for future expenses relating to the administration of existing claims. Payments made by the Board on a self-insured basis are excluded from the valuation of the benefits liability.

The actuarial assumptions and methods employed in the valuation represent an estimate of the Board's future obligations based on the provisions of the Yukon Workers' Compensation Act at the valuations date, the Board's current practices and administration procedures and the pattern of claims costs experienced prior to the valuation. In our opinion, for the purposes of the valuation, the actuarial assumptions are, in aggregate, appropriate and the methods employed are consistent with sound actuarial principles.

This report has been prepared, and our opinions given, in accordance with accepted actuarial practice.

Respectfully submitted  
Hewitt Associates



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Peter Muirhead, F.C.I.A.  
Fellow, Canadian Institute of Actuaries



# Auditor's Report



Auditor General of Canada  
Vérificatrice générale du Canada

To the Minister responsible for the Compensation Fund

I have audited the balance sheet of the Compensation Fund as at December 31, 2004 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, 2004 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, except for the change in the method of accounting for financial instruments as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept and the financial statements are in agreement therewith. In addition, 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

Vancouver, Canada  
May 6, 2005, except as to Note 10 (b), which is as of July 7, 2005



# Compensation Fund Balance Sheet

As at December 31

## Assets

|                                 | 2004<br>(\$000s)  | 2003<br>(\$000s)  |
|---------------------------------|-------------------|-------------------|
| <b>Current assets</b>           |                   |                   |
| Accounts receivable (note 4)    | \$ 2,162          | \$ 1,218          |
| Investments (note 3, 5)         | 131,677           | 123,440           |
| Property and equipment (note 6) | 3,942             | 3,920             |
|                                 | <u>\$ 137,781</u> | <u>\$ 128,578</u> |

## Liabilities and Reserves

### Current liabilities

|                           |              |              |
|---------------------------|--------------|--------------|
| Bank overdraft (note 10)  | \$ 1,327     | \$ 933       |
| Accounts payable (note 4) | 3,054        | 2,468        |
|                           | <u>4,381</u> | <u>3,401</u> |

|                                    |                |               |
|------------------------------------|----------------|---------------|
| Accrued employee benefits (note 9) | 996            | 1,533         |
| Benefits liability (note 7)        | 96,793         | 89,673        |
| Total liabilities                  | <u>102,170</u> | <u>94,607</u> |

|                          |                   |                   |
|--------------------------|-------------------|-------------------|
| <b>Reserves (note 8)</b> | 35,611            | 33,971            |
|                          | <u>\$ 137,781</u> | <u>\$ 128,578</u> |

## Commitments and Contingencies (note 11, 13)

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

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



**Craig Tuton,  
Chair**

*Alternate Chair*



# Compensation Fund

## Statement of Operations and Reserves

For the year ended December 31

|   | <b>2004</b><br><b>(\$000s)</b> | <b>2003</b><br><b>(\$000s)</b> |
|---|--------------------------------|--------------------------------|
| <b>Revenue</b>  |                                |                                |
| Assessments (note 10)                                 | \$ 9,680                       | \$ 8,428                       |
| Investment (note 5)                                   | 8,829                          | 5,102                          |
| Recoveries and other receipts (note 10)               | 1,445                          | 477                            |
| Total revenues  | <u>19,954</u>                  | <u>14,007</u>                  |
| <b>Expenses</b>                                       |                                |                                |
| Claims expenses (note 7)                              | 19,543                         | 15,703                         |
| Administration and prevention (note 12)               |                                |                                |
| Administration  | 5,089                          | 5,697                          |
| Occupational health and safety                        | 923                            | 1,008                          |
| Workers' Advocate                                     | 342                            | 378                            |
| Congress 2004   | 277                            | 102                            |
| Contractor Safety Association                         | 174                            | 42                             |
| Appeal Tribunal                                       | 171                            | 187                            |
| Act Review  | 129                            | 33                             |
| Employer Consultant                                   | 111                            | 137                            |
| Federation of Labour                                  | 11                             | -                              |
| Business process improvement costs (note 6)           | -                              | 156                            |
| Total expenditures                                    | <u>26,770</u>                  | <u>23,443</u>                  |
| Operating deficit for the year                        | (6,816)                        | (9,436)                        |
| Effect of change in assumptions (note 7)              | -                              | 8,336                          |
| Final operating deficit                               | <u>(6,816)</u>                 | <u>(1,100)</u>                 |
| <b>Reserves</b>                                       |                                |                                |
| Reserves, beginning of the year, as previously stated | 33,971                         | 35,071                         |
| Change in accounting policy (note 3)                  | 8,456                          | -                              |
| Reserves, beginning of the year, restated (note 8)    | <u>\$ 42,427</u>               | <u>\$ 35,071</u>               |
| Final operating deficit                               | (6,816)                        | (1,100)                        |
| Reserves, end of the year (note 8)                    | <u>\$ 35,611</u>               | <u>\$ 33,971</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>2004</u><br><u>(\$000s)</u> | <u>2003</u><br><u>(\$000s)</u> |
|--|--------------------------------|--------------------------------|
| <b>Cash flows from operating activities</b>                |                                |                                |
| Cash received from:  |                                |                                |
| Employers, for assessments                                 | \$ 9,350                       | \$ 8,515                       |
| Recoveries and miscellaneous                               | 850                            | 887                            |
| Investment revenue   | 4,874                          | 5,276                          |
|  | <u>15,074</u>                  | <u>14,678</u>                  |
| Cash paid to:  |                                |                                |
| Claimants or third parties on their behalf                 | (12,424)                       | (12,718)                       |
| Suppliers, for administrative and other goods and services | (6,903)                        | (7,023)                        |
|  | <u>(19,327)</u>                | <u>(19,741)</u>                |
| Cash used in operating activities                          | <u>(4,253)</u>                 | <u>(5,063)</u>                 |
| <b>Cash flows from investing activities</b>                |                                |                                |
| Sales and maturities of investments                        | 111,565                        | 113,798                        |
| Proceeds on disposal of capital assets                     | 1                              | 1                              |
| Purchases of investments                                   | (107,391)                      | (108,541)                      |
| Purchases of capital assets                                | (316)                          | (446)                          |
| Cash provided by investing activities                      | <u>3,859</u>                   | <u>4,812</u>                   |
| Net decrease in cash                                       | (394)                          | (251)                          |
| Bank overdraft, beginning of year                          | <u>(933)</u>                   | <u>(682)</u>                   |
| Bank overdraft, end of year                                | <u>\$ (1,327)</u>              | <u>\$ (933)</u>                |

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



# Compensation Fund Notes to the Financial Statements

December 31, 2004

## 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 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 is determined annually and 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.





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## (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.

The total available for reserves is allocated as follows:

- |   |  |
|---|--|
| (i) Prevention and benefit enhancement  | 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

In accordance with the provisions of the CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, the board elected to designate all investments as held for trading and records them at fair value. The fair value of publicly traded investments is quoted market price. Purchases and sales of investments are recognized on the trade date.

Realized gains and losses, arising on the sale of investments, are recognized in investment income in the period earned. Unrealized gains and losses, arising from fluctuations in fair value, are recognized in investment income in the period in which they arise. Investment income arising from dividends and interest is recognized in the period earned. Investment income is presented net of investment expenses.

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 it is earned. Exchange gains and losses resulting from the translation of foreign currency balances and transactions are recognized in investment income in the period in which they arise.



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## (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. An allowance for doubtful accounts is provided for assessments receivable based on management's best estimate.

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 10).

## (e) 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.

## (f) 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 |



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## (g) Employee Future Benefits

### **Other 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 the valuation date.

### **Pension Benefits**

Employees participate in the Public Service Pension 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.

## (h) 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, accrued employee benefits and the reserves. Actual results could differ materially from these estimates.

## 3. Change in Accounting Policy

Effective January 1, 2004, the board adopted the new CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement*. As required by the new standard, prior period results have not been restated.

Under the previous accounting policy, short-term investments were carried at amortized cost. Fixed-term securities were carried at cost, net of amortization of premiums and discounts on purchase. Equity investments were carried at cost plus a moving average market method adjustment to amortize unrealized gains and losses over a five-year period. Realized gains and losses were deferred and amortized on a straight line basis over five years. Investment income, consisting of interest and dividends, was recognized in income in the period earned.

The change in accounting policy has been made in accordance with the transitional provisions of section 3855. Under the new accounting policy, the board has chosen to designate all investments as held for trading and record them at fair value. The fair value of publicly traded investments is the market value on a recognized exchange. Realized and unrealized gains and losses are now recognized in full in investment income in the period in which they arise.

On January 1, 2004, the board's investments were revalued from a carrying value of \$130,301,184 to a fair value of \$131,976,288. The difference of \$1,675,104 was reclassified as an adjustment to the opening balance of the reserves. The balance of the deferred realized gains of \$6,781,093, which can no longer be deferred under the new standard, was also reclassified as an adjustment to the opening reserve balance. The total impact of the change in accounting policy was an increase to the opening reserve balance of \$8,456,197.

In early adopting the new standard for financial instruments the board was required to adopt new CICA Handbook Section 1530, *Comprehensive Income*, and Section 3865, *Hedges*. These standards did not have an impact on the financial statements because the board does not engage in the types of transactions addressed by these sections.



## 4. Accounts Receivable and Accounts Payable

|                               | <u>2004</u><br><u>(\$000s)</u> | <u>2003</u><br><u>(\$000s)</u> |
|-------------------------------|--------------------------------|--------------------------------|
| <b>Receivable</b>             |                                |                                |
| Assessments                   | \$ 1,067                       | \$ 718                         |
| Government of Yukon (note 10) | 948                            | 435                            |
| Other receivables             | <u>147</u>                     | <u>65</u>                      |
|                               | <u>\$ 2,162</u>                | <u>\$ 1,218</u>                |
| <b>Payable</b>                |                                |                                |
| Assessments                   | \$ 358                         | \$ 339                         |
| Government of Yukon (note 10) | 1,332                          | 1,364                          |
| Other payables                | <u>1,364</u>                   | <u>765</u>                     |
|                               | <u>\$ 3,054</u>                | <u>\$ 2,468</u>                |



## 5. Investments and Investment Revenue

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.

### a) Portfolio Investments

|                                    | <b>2004<br/>(\$000s)</b> |                | <b>2003<br/>(\$000s)</b> |                   |                |
|------------------------------------|--------------------------|----------------|--------------------------|-------------------|----------------|
|                                    | Fair Value               | Rate of Return | Fair Value               | Carrying Value    | Rate of Return |
| <b>Fixed-term securities</b>       |                          |                |                          |                   |                |
| Federal Bonds                      | \$ 20,885                |                | \$ 23,372                | \$ 22,903         |                |
| Provincial Bonds                   | 14,580                   |                | 9,671                    | 9,221             |                |
| Corporate Bonds                    | 26,537                   |                | 28,903                   | 27,467            |                |
| Municipal Bonds                    | <u>742</u>               |                | <u>912</u>               | <u>880</u>        |                |
|                                    | 62,744                   | 6.7%           | 62,858                   | 60,471            | 6.4%           |
| <b>Equities</b>                    |                          |                |                          |                   |                |
| Canadian                           | 21,018                   | 16.2%          | 21,882                   | 19,870            | 26.2%          |
| United States                      | 11,632                   | 0.7%           | 11,947                   | 13,441            | 0.6%           |
| Overseas                           | <u>32,143</u>            | 7.9%           | <u>30,984</u>            | <u>32,182</u>     | 7.6%           |
|                                    | 64,793                   |                | 64,813                   | 65,493            |                |
| <b>Other investments</b>           |                          |                |                          |                   |                |
| Cash on account                    | 622                      |                | 185                      | 186               |                |
| Treasury Bills                     | 2,939                    |                | 3,279                    | 3,310             |                |
| Accrued interest income            | <u>664</u>               |                | <u>841</u>               | <u>841</u>        |                |
|                                    | 4,225                    |                | 4,305                    | 4,337             |                |
| Investments, sub-total             | <u>131,762</u>           |                | <u>131,976</u>           | <u>130,301</u>    |                |
| Management fee accrual             | (85)                     |                | (80)                     | (80)              |                |
| Deferred realized investment gains | <u>-</u>                 |                | <u>-</u>                 | <u>(6,781)</u>    |                |
|                                    | \$ <u>131,677</u>        | 7.2%           | \$ <u>131,896</u>        | \$ <u>123,440</u> | 8.2%           |



## (b) Investment Revenue

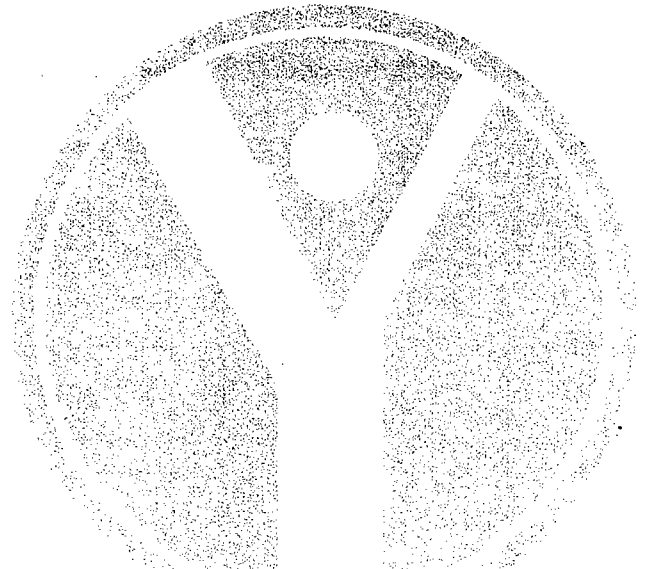
|                                       | <b>2004</b><br><b>(\$000s)</b> | <b>2003</b><br><b>(\$000s)</b> |
|---------------------------------------|--------------------------------|--------------------------------|
| Dividends and interest                |                                |                                |
| Fixed-term                            | \$ 3,541                       | \$ 3,180                       |
| Equity                                | 1,469                          | 1,366                          |
|                                       | <u>5,010</u>                   | <u>4,546</u>                   |
| Gains and losses                      |                                |                                |
| Amortized realized & unrealized gains | -                              | 1,004                          |
| Realized gains in the year            | 1,072                          | -                              |
| Change in fair value in the year      | 3,213                          | -                              |
|                                       | <u>9,295</u>                   | <u>5,550</u>                   |
| Investment management fees            | <u>(466)</u>                   | <u>(448)</u>                   |
|                                       | <u>\$ 8,829</u>                | <u>\$ 5,102</u>                |

## c) 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. To manage this risk the board determined that 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.

## d) Foreign Exchange Risk Management

The Fund has investments in equities denominated in foreign currencies. The board 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. The fair value of investments in US\$ as at December 31, 2004 was \$18,821,374 (2003 - \$16,100,665 at cost). The Fund did not hold any investments in European currency at December 31, 2004 (2003 - \$378,515 at cost).



## e) Interest Rate Risk Management

Fluctuations in interest rates can impact the fair 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.

The fixed term investments, at fair value, in thousands of dollars, mature as follows:

|                       |                          |                  |             |
|-----------------------|--------------------------|------------------|-------------|
| 1 to 5 years          | effective yield of 3.42% | \$ 14,502        | 23%         |
| 6 to 10 years         | effective yield of 4.31% | 31,397           | 50%         |
| greater than 10 years | effective yield of 5.16% | 16,845           | 27%         |
|                       |                          | <u>\$ 62,744</u> | <u>100%</u> |

## 6. Property and Equipment

|                                    | <u>2004</u><br>(\$000s) |                                 |                           | <u>2003</u><br>(\$000s)   |
|------------------------------------|-------------------------|---------------------------------|---------------------------|---------------------------|
|                                    | <u>Cost</u>             | <u>Accumulated Amortization</u> | <u>Net Carrying Value</u> | <u>Net Carrying Value</u> |
| Land                               | \$ 390                  | \$ -                            | \$ 390                    | \$ 390                    |
| Buildings                          | 3,253                   | (991)                           | 2,262                     | 2,337                     |
| Furniture and equipment            | 543                     | (450)                           | 93                        | 95                        |
| Computer systems and equipment     | 1,835                   | (1,727)                         | 108                       | 108                       |
| Systems development <sup>(1)</sup> | 1,211                   | (122)                           | 1,089                     | 990                       |
|                                    | <u>\$ 7,232</u>         | <u>\$ (3,290)</u>               | <u>\$ 3,942</u>           | <u>\$ 3,920</u>           |

<sup>(1)</sup>The Achieving Better Customer Service project incurred expenditures of \$168,000 in 2004 (2003 - \$531,000). All of the 2004 project expenditures were capitalized and no business process improvements were expensed in the current year (2003 - \$156,000). As of December 31, 2004, costs of \$740,882 (2003 - \$674,698) for the claims and assessment components of the project have been capitalized and will not be amortized until these system components are substantially complete.

In 2003, the financial system was substantially complete and amortization of the system began in that year. In 2004, additional components of the financial system, with a cost of \$101,000 (2003 - \$368,790), were installed and amortized as part of the overall system.



## 7. Benefits Liability

|   | <u>2004</u><br>(\$000s)                   |                  |                 |                  | <u>2003</u><br>(\$000s) |
|---|---|------------------|-----------------|------------------|-------------------------|
|   | <u>Medical Aid &amp;<br/>Compensation</u> | <u>Pension</u>   | <u>Annuity</u>  | <u>Total</u>     | <u>Total</u>            |
| Balance, beginning of year                      | \$ 63,269                                 | \$ 22,206        | \$ 4,198        | \$ 89,673        | \$ 95,022               |
| Effects of change in assumptions <sup>(1)</sup> | -   | -                | -               | -                | (8,336)                 |
| Adjusted balance, beginning of year             | <u>\$ 63,269</u>                          | <u>\$ 22,206</u> | <u>\$ 4,198</u> | <u>\$ 89,673</u> | <u>\$ 86,686</u>        |
| Add claims costs incurred:                      |   |                  |                 |                  |                         |
| Current year injuries                           | 11,323                                    | -                | -               | 11,323           | 9,702                   |
| Prior years' injuries                           | <u>5,856</u>                              | <u>1,558</u>     | <u>806</u>      | <u>8,220</u>     | <u>6,001</u>            |
|   | <u>17,179</u>                             | <u>1,558</u>     | <u>806</u>      | <u>19,543</u>    | <u>15,703</u>           |
| Less claims payments made:                      |   |                  |                 |                  |                         |
| Current year injuries                           | 2,225                                     | -                | -               | 2,225            | 1,950                   |
| Prior years' injuries                           | <u>8,697</u>                              | <u>1,337</u>     | <u>164</u>      | <u>10,198</u>    | <u>10,766</u>           |
|   | <u>10,922</u>                             | <u>1,337</u>     | <u>164</u>      | <u>12,423</u>    | <u>12,716</u>           |
| Balance, end of year                            | <u>\$ 69,526</u>                          | <u>\$ 22,427</u> | <u>\$ 4,840</u> | <u>\$ 96,793</u> | <u>\$ 89,673</u>        |

(<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.

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

|   | <b>2004</b> | <b>2003</b> |
|---|-------------|-------------|
| Future net investment rate of return        | 3.50%       | 3.50%       |
| Future net discount rate in medical aid     | 1.50%       | 1.50%       |
| Future net discount rate in compensation    | 2.50%       | 2.50%       |
| Future net discount rate in rehabilitation  | 3.50%       | 3.50%       |
| Future increase in the Consumer Price Index | 3.50%       | 3.50%       |

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 practical to determine due to its long-term nature.





## 8. Reserves

The Board's review of the structure of the reserves, which began in 2003, will be completed in 2005. 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 be reduced by \$5,800,000 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 Benefit Enhancement Reserve</b> |                          |
|---|---|--------------------------|
|   | <b>2004<br/>(\$000s)</b>                          | <b>2003<br/>(\$000s)</b> |
| Balance, beginning of year                | \$ 9,937  | \$ 15,309                |
| Less adjustments to prior year allocation | -   | (5,800)                  |
| Current allocation                        | 726   | 428                      |
| Balance, end of year                      | <u>\$ 10,663</u>                                  | <u>\$ 9,937</u>          |

|                            | <b>Target Reserve</b>          |                                      |  |                  | <b>2003<br/>(\$000s)</b> |
|----------------------------|--------------------------------|--------------------------------------|--|------------------|--------------------------|
|                            | <b>2004<br/>(\$000s)</b>       |                                      |  |                  |                          |
|                            | <b>Catastrophic<br/>Claims</b> | <b>Adverse Claims<br/>Experience</b> | <b>Occupational<br/>Disease Claims</b> | <b>Total</b>     | <b>Total</b>             |
| Balance, beginning of year | \$ 13,160                      | \$ 12,732                            | \$ 6,277                               | \$ 32,169        | \$ 33,390                |
| Current allocation         | 240                            | 1,054                                | 499                                    | 1,793            | (1,221)                  |
| Balance, end of the year   | <u>\$ 13,400</u>               | <u>\$ 13,786</u>                     | <u>\$ 6,776</u>                        | <u>\$ 33,962</u> | <u>\$ 32,169</u>         |

|  | <b>2004<br/>(\$000s)</b> | <b>2003<br/>(\$000s)</b> |
|--|--------------------------|--------------------------|
| Prevention and benefit enhancement reserve | \$ 10,663                | \$ 9,937                 |
| Target reserve                             | 33,962                   | 32,169                   |
| Rate transition reserve, end of year       | -                        | -                        |
| Total required reserves, end of year       | \$ 44,625                | \$ 42,106                |
| Deficiency in reserve funding              | (9,014)                  | (8,135)                  |
| Total reserves                             | <u>\$ 35,611</u>         | <u>\$ 33,971</u>         |



## 9. Employee Future Benefits

### a) Public Service Pension Plan

Contributions made to the Public Service Pension Plan by the board and its employees for the year were as follows:

|                          | <b>2004</b><br><b>(\$000s)</b> | <b>2003</b><br><b>(\$000s)</b> |
|--------------------------|--------------------------------|--------------------------------|
| Employees' contributions | \$ 165                         | \$ 169                         |
| Fund contributions       | 353                            | 361                            |
| Total                    | <u>\$ 518</u>                  | <u>\$ 530</u>                  |

### b) Other Benefits

The liability for employee non-pension benefits, including vacation, sick, compensatory and personal leave, travel bonus and severance at December 31, 2004 was as follows:

|  | <b>2004</b><br><b>(\$000s)</b> | <b>2003</b><br><b>(\$000s)</b> |
|--|--------------------------------|--------------------------------|
| Accrued benefits, beginning of the year          | \$ 1,650                       | \$ 1,327                       |
| Adjustment at the end of the year                | (54)                           | 448                            |
| Net payments made during the year                | (117)                          | (125)                          |
| Accrued benefits, end of the year                | <u>\$ 1,479</u>                | <u>\$ 1,650</u>                |
| Short-term portion, included in accounts payable | \$ 483                         | \$ 117                         |
| Long-term portion                                | 996                            | 1,533                          |
|  | <u>\$ 1,479</u>                | <u>\$ 1,650</u>                |

## 10. Related Party Transactions

### a) Normal Course of Business

As an agency of the Government of Yukon (the Government), 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 and the transactions are recorded at the exchange amount. All mainframe computer software is owned by the Government. 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.

The Compensation Fund paid the Government \$527,000 (2003 - \$633,000) for building maintenance, computer, office supplies, payroll processing, recruitment, vehicle and rehabilitation services. The Fund also reimbursed the Government for payroll costs of \$4,706,000 (2003 - \$4,866,000).

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). 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.

Effective January 1, 1993, all Government employees were covered by the Fund. Revenues and recoveries from the Government of Yukon as at December 31, 2004 were as follows:

|                                     | <b>2004</b><br><b>(\$000s)</b> | <b>2003</b><br><b>(\$000s)</b> |
|-------------------------------------|--------------------------------|--------------------------------|
| Assessments                         | \$ 2,852                       | \$ 2,626                       |
| Recoveries - Mine Rescue ( note10b) | \$ 857                         | \$ -                           |
| Supplementary compensation benefits | \$ 394                         | \$ 461                         |
| Pre-93 claims costs                 | \$ 180                         | \$ 537                         |

As at December 31, 2004, balances due to and from related parties were as follows:

|   | <b>2004</b><br><b>(\$000s)</b> | <b>2003</b><br><b>(\$000s)</b> |
|---|--------------------------------|--------------------------------|
| Due to Government of Yukon                          | \$ 1,332                       | \$ 1,364                       |
| Due from Government of Yukon - Recoveries (note10b) | \$ 948                         | \$ 435                         |
| Due from Government of Yukon - Assessments          | \$ 161                         | \$ 155                         |

## b) Mine Rescue Recovery

On July 7, 2005, the Government of Yukon agreed that it owed the Fund a total amount of \$857,544 as at December 31, 2004 for the Mine Safety program, which was transferred to the board in 1993. This amount is comprised of recoveries for services provided by the board for management of the Mine Safety program from 2001 to 2004, inclusive, and has been included as recoveries and other receipts in 2004.

At the same time, the Government approved the reinstatement of ongoing of funding for the Mine Safety program through an annual grant to the board of \$329,500, beginning in fiscal 2005. This funding is to be reviewed by the Government, at a minimum, every five years.

## 11. Commitments

The board has commitments for office space, contribution agreements and professional legal and medical services for the next five years, in thousands of dollars, as follows:

|      |                 |
|------|-----------------|
| 2005 | \$ 361          |
| 2006 | 304             |
| 2007 | 169             |
| 2008 | 166             |
| 2009 | 98              |
|      | <u>\$ 1,098</u> |



## 12. Administration and Prevention Expenses

|                             | <b>2004</b><br><b>(\$000s)</b> | <b>2003</b><br><b>(\$000s)</b> |
|-----------------------------|--------------------------------|--------------------------------|
| Salaries and benefits       | \$ 4,781                       | \$ 5,153                       |
| Consulting and professional | 690                            | 532                            |
| Amortization                | 295                            | 366                            |
| Buildings                   | 255                            | 298                            |
| General administration      | 227                            | 217                            |
| Board expenses              | 214                            | 192                            |
| Communications              | 196                            | 186                            |
| Computer systems            | 170                            | 206                            |
| Automobile and travel       | 150                            | 184                            |
| Printing and publications   | 117                            | 115                            |
| Staffing and recruitment    | 73                             | 82                             |
| Supplies and stationery     | 36                             | 44                             |
| Furniture and equipment     | 23                             | 9                              |
|                             | <u>\$ 7,227</u>                | <u>\$ 7,584</u>                |



## 13. Contingencies

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 and are not included in the benefits liability. To address the future cost of these claims, an amount has been included in the target reserve for latent occupational diseases.

## 14. Fair value of Other Financial Instruments

The carrying value of accounts receivable, bank overdraft and accounts payable approximate their fair value given their short term to maturity.

## 15. Comparative Figures

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

