COMPENSATION FUND (YUKON)

FINANCIAL STATEMENTS

December 31, 2007

(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, 2007, 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.

Members of the Board of Directors (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 meets with management and the external auditors on a regular basis. The 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.

Morneau Sobeco, an independent consulting actuarial firm, has completed an actuarial valuation of the benefits liability included in the financial statements of the Compensation Fund and reported thereon in accordance with accepted actuarial practice.

Valerie Royle, BComm (Hons), MBA President and Chief Executive Officer	Jim Stephens, CMA, CGA Vice President, Operations and Chief Financial Officer

May 15, 2008

Actuarial Certification

With respect to the *Workers' Compensation Act* of the Yukon Territory, I state that in my opinion:

1. The total actuarial liability as at December 31, 2007 for benefit payments of all types expected to be made after December 31, 2007 in respect of accidents of 2007 and prior years amounts to $112,488,000. This liability includes future administrative expenses for all benefits with the exception of Annuity benefits payable at age 65. It does not include any self-insured employers. A provision for future claims arising from latent occupational diseases was not included in this valuation.

2. The liability as at December 31, 2007 for Annuity contributions and interest already set aside by the board up to December 31, 2007 for purposes of providing pension benefits at age 65 to injured workers and dependent spouses of deceased workers is included in item 1 above and was obtained from the board's Finance Division staff.

3. The total actuarial liability in item 1 above is inclusive of legislative changes proposed under Bill 52, An Act to amend the *Workers' Compensation Act* of the Yukon Territory. The legislative changes have been reflected to the extent that they would impact accidents which occurred on or prior to December 31, 2007.

4. The data on which the valuation is based were provided by the board. We applied such checks of reasonableness of the data as we considered appropriate, and have concluded that the data are sufficient and reliable to permit a realistic valuation of the liabilities of the board as described above.

5. The actuarial assumptions adopted in computing the foregoing liabilities are adequate and appropriate for Workers' Compensation organizations in Canada. The methods employed are in accordance with accepted actuarial practice for Workers' Compensation organizations in Canada. The economic assumptions adopted for purposes of computing the above-noted liabilities are consistent with the funding and investment policies of the board.

6. The valuation report has been prepared and my opinion has been given in accordance with accepted actuarial practice for Workers' Compensation organizations in Canada.

Details of the data, actuarial assumptions and valuation methods are set out in the actuarial report as at December 31, 2007, of which this statement of opinion forms part.

Conrad Ferguson, F.S.A., F.C.I.A.

Partner, Morneau Sobeco

AUDITOR'S REPORT

To the Minister responsible for the Compensation Fund

I have audited the balance sheet of the Compensation Fund as at December 31, 2007 and the statements of operations and comprehensive income, 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Workers' Compensation Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept 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.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Vancouver, Canada
April 25, 2008, except as to Notes 6 and 14 which are as of May 15, 2008

Compensation Fund
Balance Sheet
As at December 31

	2007 ($000s)		2006 ($000s)	
ASSETS				
Accounts receivable (note 3)	$	3,137	$	3,233
Investments (note 4)		134,651		139,082
Property and equipment (note 5)		6,802		6,461
	$	144,590	$	148,776
LIABILITIES AND RESERVES				
Bank overdraft (note 9)	$	2,913	$	1,743
Accounts payable and accrued liabilities (note 3)		3,632		3,505
Benefits liability (note 6)		112,488		110,731
Accrued employee benefits (note 8)		968		1,587
		120,001		117,566
Reserves (note 7)		24,589		31,210
	$	144,590	$	148,776

Commitments and Contingencies (notes 10 and 13)

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

Approved by the Yukon Workers' Compensation Health and Safety Board

Craig Tuton
Chair

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

	2007 ($000s)	2006 ($000s)
Revenue		
Assessments	$ 22,491	$ 16,534
Investment (note 4)	(2,958)	15,424
Recoveries and other receipts	978	1,992
	20,511	33,950
Expenses		
Claims expenses (note 6)	17,125	21,390
Administration (note 11)		
General and Administration	7,015	6,938
Occupational Health and Safety	1,312	1,422
Workers' Advocate	312	381
Appeal Tribunal	135	167
Act Review	26	81
Prevention (note 12)	1,207	536
	27,132	30,915
Operating (deficit) surplus and Comprehensive income	(6,621)	3,035

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

Compensation Fund
Statement of Reserves
For the year ended December 31

	2007 ($000s)	2006 ($000s)
PREVENTION FUND		
Balance, beginning of year	4,733	5,000
Charges to fund	(935)	(267)
Balance, end of year (note 7)	3,798	4,733
RATE TRANSITION FUND		
Balance, beginning of year	-	1,922
Charges to fund	-	(1,922)
Balance, end of year (note 7)	-	-
ADVERSE EVENTS RESERVE		
Balance, beginning of year	16,380	16,380
Balance, end of year (note 7)	16,380	16,380
STABILIZATION RESERVE		
Balance, beginning of year	10,097	4,873
Operating (deficit) surplus	(6,621)	3,035
Amount charged to Rate Transition fund	-	1,922
Amount charged to Prevention fund	935	267
Balance, end of year (note 7)	4,411	10,097

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

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

	2007 ($000s)	2006 ($000s)
Cash flows from operating activities		
Cash received from:		
Employers, for assessments	$ 21,834	$ 15,816
Investment revenue - net	6,545	4,919
Recoveries and other receipts	2,036	1,109
	30,415	21,844
Cash paid to:		
Claimants or third parties on their behalf	(15,368)	(15,854)
Employees, for salaries and benefits	(6,694)	(5,569)
Suppliers, for administrative and other goods and services	(3,272)	(3,038)
	(25,334)	(24,461)
Cash provided by (used in) operating activities	5,081	(2,617)
Cash flows from investing activities		
Proceeds on sales and maturities of investments	55,765	62,027
Purchases of investments	(61,010)	(56,182)
Purchases of property and equipment	(1,006)	(2,461)
Cash (used in) provided by investing activities	(6,251)	3,384
Net (decrease) increase in cash	(1,170)	767
Bank overdraft, beginning of year	(1,743)	(2,510)
Bank overdraft, end of year	$ (2,913)	$ (1,743)

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

1. Nature of Operations

The Compensation Fund (the Fund) was established by the *Workers' Compensation Act* and is administered by the Yukon Workers' Compensation Health and Safety Board (the board) pursuant to the Act. The Fund, as administered by the board, provides compensation for injury or death by accident arising out of and in the course of employment. Annual assessments are levied upon employers by applying their industry assessment rate to their actual or estimated payrolls for the year. 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 significant accounting policies are summarized 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 as well as future claims management costs. 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 (note 13).

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. An amount equal to ten percent of the total compensation payments, plus interest, is set aside to provide a retirement annuity at sixty-five years of age.

(b) Investments

Pursuant to CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, the board has elected to designate all investments as held for trading. Consequently, investments are recorded at fair value. The fair value of publicly traded investments is the quoted market prices. Pooled fund units are valued at their year-end net asset value, as determined by the fund manager. Purchases and sales of investments are recognized on the trade date. Cash on account and short-term investments held by the investment managers for investment purposes are included in Investments.

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.

In adopting the standard for financial instruments the board is required to adopt CICA Handbook Section 3865, *Hedges*. This standard does not have an impact on the financial statements because the board does not engage in the types of transactions addressed by this section.

The board has also adopted CICA Handbook Section 1530, *Comprehensive Income*. This standard requires the presentation of Comprehensive Income, which consists of net earnings and other comprehensive income. As there is no other comprehensive income item to report in the Fund's financial statements, the board has decided to modify the title of the "Statement of Operations" to "Statement of Operations and Comprehensive Income", and modify the line "Operating surplus" to "Operating surplus and Comprehensive income".

(c) Assessments

Assessment revenue is calculated monthly 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. At year end, assessments receivable and payable are adjusted based on the difference between estimated and actual payrolls. 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 9).

(d) 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.

(e) Property and equipment

Property and equipment is recorded at cost less accumulated amortization. Salaries, wages and benefits directly related to internally developed property and equipment are included in the asset's costs. Development costs capitalization will cease when the item is substantially complete and ready for use. The costs will be transferred to the related asset category and amortized. 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	5 to 10 years

(f) Employee future benefits

Pension Benefits
All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The Fund'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 Fund and are expensed during the year in which the services are rendered. The Fund is not currently required to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

Other Benefits
Under conditions of employment, employees may qualify and earn employment benefits for vacation, sick, long service, and severance benefits. The benefit obligation is determined on an actuarial basis. The liability for accrued employee benefits is based on the December 31, 2007 actuarial valuation as calculated by the board's actuary. The obligation for vacation leave, sick leave, and severance benefits are calculated using the projected benefit method prorated on service. The long service leave benefit is calculated assuming all employees receive the benefits on the valuation date.

(g) Government funding

In 2005 the Government of Yukon approved the reinstatement of ongoing funding for the Mine Rescue Program, which was transferred to the board in 1993, through an annual grant to the board, beginning in fiscal 2005. This funding is to be reviewed by the Government, at a minimum, every five years. The revenue is accounted for in Recoveries and other receipts in the period in which the related expenses are incurred (note 9).

(h) Use of Estimates

The preparation of the 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 year. This mainly affects claims expenses, benefits liability, accounts receivable and assessments revenue, useful life of property and equipment, accrued employee benefits and the reserves. Actual results could differ materially from these estimates.

(i) Future Accounting Changes

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 3862 *Financial Instruments – Disclosures;* Section 3863 *Financial Instruments – Presentation;* and Section 1535 *Capital Disclosures.* These standards apply to fiscal years beginning on or after October 1, 2007 and accordingly will be effective for the Fund on January 1, 2008. These sections are currently being assessed by management to determine the applicability and impact on the Fund's financial statements.

3. Accounts Receivable and Accounts Payable and Accrued Liabilities

	2007 ($000s)	2006 ($000s)
Receivable		
Assessments	$ 2,865	$ 1,903
Government of Yukon (note 9)	140	1,233
Other receivables	132	97
	$ 3,137	$ 3,233

	2007 ($000s)	2006 ($000s)
Payable		
Assessments	$ 988	$ 683
Government of Yukon (note 9)	1,579	2,032
Other payables and accrued liabilities	1,065	790
	$ 3,632	$ 3,505

The carrying value of accounts receivable and accounts payable and accrued liabilities approximates their fair value given their short term to maturity.

4. Investments and Investment Revenue

The Board of Directors 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

	2007 ($000s) Fair Value	2006 ($000s) Fair Value
Fixed-term securities		
Federal Bonds	$ 19,715	$ 22,955
Provincial Bonds	2,822	6,612
Corporate Bonds	39,161	30,453
	61,698	60,020
Equities		
Canadian	21,844	23,333
United States	21,145	25,120
International	27,018	28,317
	70,007	76,770
Other Investments		
Cash on account	99	211
Treasury Bills	1,758	1,463
Accrued interest receivable	1,148	681
	3,005	2,355
Investments, sub-total	134,710	139,145
Management fee accrual	(59)	(63)
	$ 134,651	$ 139,082

(b) Investment Revenue (Loss)

	2007 ($000s)	2006 ($000s)
Dividends and interest		
Bonds and short-term investments	$ 3,098	$ 3,021
Equities	3,895	2,395
	6,993	5,416
Gains and (losses) - net		
Realized gains in the year	989	1,387
Change in fair value in the year	(10,484)	9,084
	(2,502)	15,887
Investment management fees	(456)	(463)
	$ (2,958)	$ 15,424

(c) Investment Performance

The investments are managed by two independent investment managers. The rates of return on the investments for the year are as follows:

	2007	2006
Fixed-term securities	3.7%	4.1%
Canadian equities	6.9%	15.4%
United States equities	-13.6%	17.4%
International equities	-9.2%	26.5%

Treasury Bills earn interest at rates ranging from 0.440% to 0.786% (2006 – 0.996% to 1.275%) and mature within 90 days.

(d) Market Risk Management

Market risk is managed through diversification between different asset classes and limiting the concentration in any single portfolio or entity.

(e) 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 has determined that short-term investments must have a credit rating of at least R1L, and long-term investments require a rating of BBB 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. The board has stayed within these guidelines during the year.

(f) 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 the Fund's US dollar investments as at December 31, 2007 was $35,297,000 (2006 – $40,277,000). The Fund did not hold any investments in other foreign currencies at December 31, 2007 (2006 – nil).

(g) 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 securities, at fair value, in thousands of dollars, mature as follows:

1 to 5 years	effective yield of 4.57%	$ 28,422	46%
6 to 10 years	effective yield of 4.86%	12,388	20%
greater than 10 years	effective yield of 4.53%	20,888	34%
		$ 61,698	100%

5. Property and Equipment

	2007 ($000s)			2006 ($000s)
	Cost	Accumulated Amortization	Net Carrying Value	Net Carrying Value
Land	$ 390	$ -	$ 390	$ 390
Buildings	3,626	(1,273)	2,353	2,164
Furniture and equipment	631	(533)	98	107
Computer systems and equipment	6,249	(2,448)	3,801	372
Systems development (1)	160	-	160	3,428
	$ 11,056	$ (4,254)	$ 6,802	$ 6,461

(1) As of December 31, 2007, costs of $160,000 (2006 – nil) for the CHOICES program were capitalized and will not be amortized until 2008 when the system is substantially complete and in use.

6. Benefits Liability

	2007 ($000s)				2006 ($000s)
	Medical Aid & Compensation	Pension	Annuity	Total	Total
Balance, beginning of year	$ 81,411	$ 23,156	$ 6,164	$ 110,731	$ 105,195
Add claims costs incurred:					
Current year injuries	14,369	-	-	14,369	13,907
Prior years' injuries (1)	1,632	962	162	2,756	7,483
	16,001	962	162	17,125	21,390
Less claims payments made:					
Current year injuries	2,025	-	-	2,025	3,063
Prior years' injuries	11,601	1,883	(141)	13,343	12,791
	13,626	1,883	(141)	15,368	15,854
Balance, end of year	$ 83,786	$ 22,235	$ 6,467	$ 112,488	$ 110,731

The key actuarial assumptions used to value the benefits liability as at December 31 are as follows:

	2007	2006
Discount rate for medical aid benefits	1.50%	1.50%
Discount rate for compensation benefits	4.00%	2.50%
Discount rate for rehabilitation (2)	n/a	3.50%
Discount rate for survivor and other pension benefits	4.00%	3.50%

The benefits liability was determined using accepted actuarial practice 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 are 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.

Significant changes in the benefits liability due to changes in legislation (note 14) and actuarial assumptions included the following:

		Increase (decrease) in benefits liability ($000s)
Change in provision for recovery from injury	$	4,773
Adjustments to mortality factors		1,224
Favourable experience on actual termination of benefits		(1,249)
Legislative change - indexing of benefits		(5,645)
Legislative change - CPP disability benefits offset		(1,066)

(1) In 2005, the Board of Directors approved a policy to establish the circumstances in which the Fund will provide lump sum payments to workers as allowed under pre-1993 workers' compensation legislation.

The lump sum payment in lieu of future periodic compensation payments is considered settlement in full of all compensation entitlement in respect of the claim to age 65. The worker may be allowed to receive additional medical treatment.

When the lump sum is paid, an amount equal to 10 percent of the present value of the future loss of earnings compensation is transferred to the annuity account of the Fund to provide a retirement annuity at age 65. At the request of the worker, the annuity amount may be paid into an established superannuation plan.

During the year ended December 31, 2007, the board did not pay out any amounts on account of lump sum payments and Annuities (2006 – $2,022,000 and $317,000). As of December 31, 2007, there are applications outstanding for lump sum payments for a total of approximately $722,000 (2006 – $712,000).

(2) For 2007, the discount rate for rehabilitation is included in the determination of medical aid and compensation benefits liability.

7. Reserves

In 2005, the Board of Directors completed a review of the reserves structure and amended the funding policy, which provides for the establishment of two temporary funds (Prevention Fund and Rate Transition Fund) and two new reserves (Adverse Events Reserve and Stabilization Reserve). The reserves are established to protect the fully funded position of the Fund and to stabilize the effect of fluctuations in the employer assessment rates. The Fund is considered fully funded when there are sufficient funds for the payment of all present and future compensation, including the cost of administration. At the end of the fiscal year, once the benefits liability is determined, the remaining difference between the Fund's assets and liabilities is credited to reserves.

Under the current funding policy, the two temporary funds and two reserves are established as follows:

Temporary Funds:

(i) Prevention Fund

The Prevention Fund serves to provide funding for the start up costs of pre-selected accident prevention and workplace safety initiatives. It was initially established in 2005, with $5,000,000 and will not be replenished once depleted. In 2007, a total of $935,000 (2006 – $267,000) was incurred on accident prevention and workplace safety initiatives. At December 31, 2007, the Prevention Fund has a balance of $3,798,000 (2006 – $4,733,000).

(ii) Rate Transition Fund

The Rate Transition Fund, which was initially established at $6,500,000 and will not be replenished once depleted, was intended to provide temporary funding for the removal of employer assessment rate subsidies. At December 31, 2007, the Rate Transition Fund has a nil balance (2006 – nil).

Reserves:

(iii) Adverse Events Reserve

The Adverse Events Reserve is to provide funding for infrequent, unexpected adverse claims experience and catastrophic events to protect employers from sudden impact of the costs of these types of events. The target level for this reserve is $18,569,000 (2006 – $18,023,000), which has been set at 100 times the maximum wage rate plus 10 percent of the benefits liability and is calculated annually upon completion of the actuarial valuation of the benefits liability. Costs related to catastrophic and adverse events and latent occupational diseases are charged to this reserve; 2007 – nil, (2006 – nil). This reserve is limited to its target level. Funds in excess of the target level are transferred to the Stabilization Reserve; 2007 – nil (2006 – nil). At December 31, 2007, the Adverse Events Reserve has a balance of $16,380,000 (2006 – $16,380,000).

A funding deficiency exists when the reserve is below its target level; 2007 – $2,189,000 (2006 – $1,643,000). In the event of a charge against this reserve and when a funding deficiency exists, the following steps will be taken to replenish the reserve to its target level:

- Any recovery of the costs charged to this reserve will be added to this reserve, up to the target level.
- Any surplus in the Stabilization Reserve will be transferred to this reserve to replenish it up to the target level, if possible.
- If the transfer from the Stabilization Reserve is not sufficient to replenish this reserve to the target level, the reserve will be replenished by a special assessment premium surcharge based on an established schedule as outlined in the funding policy.
- In subsequent years, if a recovery or a surplus in the Stabilization Reserve becomes sufficient to replenish the reserve, any special assessment premium surcharge will be cancelled.

(iv) Stabilization Reserve

The Stabilization Reserve is to protect the fully funded position of the Fund and to stabilize the effect of fluctuations on employer assessment rates. The target level for this reserve is equal to 10 percent of the benefits liability; 2007 – $11,249,000 (2006 – $11,073,000). The operating range for this reserve is determined as the target level balance plus or minus 3.5 percent of the benefits liability. The annual operating surplus (deficit), 2007 – ($5,686,000) (2006 – $5,224,000), net of any amounts charged to the temporary funds and the Adverse Events Reserve, is transferred to this reserve. At December 31, 2007, the Stabilization Reserve has a balance of $4,411,000 (2006 – $10,097,000).

This reserve is considered to have a surplus when its balance exceeds the top of the operating range. Any surplus (determined as the difference between the reserve balance and its target level) is transferred to the Adverse Events Reserve, up to the target level if the latter reserve is below target. If the Adverse Events Reserve is at its target level and the balance of the Stabilization Reserve exceeds the upper threshold of the operating range, any surplus will be applied as an employer assessment premium rebate based on an established schedule as outlined in the funding policy.

A funding deficiency, 2007 – $6,838,000 (2006 – $976,000), exists when the reserve balance is below its target level. The amount of the deficiency is determined as the difference between the reserve balance and its target level. In the event that this reserve falls below the lower threshold of the operating range, 2007 – $7,312,000 (2006 – $7,198,000), the following steps will be taken:

- Any amounts in excess of the target level in the Adverse Events Reserve will be transferred to the Stabilization Reserve, up to the target level, if possible.
- Any remaining deficiency will be replenished up to the target level by a special assessment premium surcharge based on an established schedule as outlined in the funding policy.

8. Employee Future Benefits

(a) Public Service Pension Plan

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

	2007 ($000s)	2006 ($000s)
Employees' contributions	$ 269	$ 242
Fund contributions	573	514

(b) Other Benefits

The liability for employee non-pension benefits, including vacation, sick, long service, and severance at December 31 was as follows:

	2007 ($000s)	2006 ($000s)
Accrued employee benefits, beginning of the year	$ 1,587	$ 1,470
Changes in Actuarial assumptions [1]	(723)	-
Costs for the year	268	334
Payments made during the year	(164)	(217)
Accrued employee benefits, end of the year	$ 968	$ 1,587

The key assumptions used to calculate the accrued employee benefits are a liability discount rate of 5.5% (2006 – 7%) and an annual rate of general escalation in wages of 3% (2006 – 3%).

[1] The valuation methodology and actuarial assumptions relating to the discount rate and attribution period were changed as of January 1, 2007, resulting in a reduction in the liability of $723,000.

9. Related Party Transactions

As a statutory Corporation of the Government of Yukon (the Government), the board is related to all Government departments, agencies and Government corporations. The board enters into transactions with these entities in the normal course of business and the transactions are recorded at the exchange amount, which approximates fair value. All mainframe computer software is owned by the Government. The board has access to the Government's overall line of credit facility with its banker. This access provides the board with overdraft coverage when needed. At December 31, 2007, there was no requirement for the Fund to pay interest on the overdraft.

The Compensation Fund paid the Government $951,000 (2006 – $668,000) for building maintenance, computer, office supplies, payroll processing, recruitment, vehicle and rehabilitation services. The Fund reimbursed the Government for payroll costs of $6,218,000 (2006 – $6,095,000).

The Government pays certain claims costs to the Compensation Fund for claims prior to 1993 (note 2c) and also reimburses the cost of supplementary benefits pursuant to the Yukon Workers' Compensation Supplementary Benefits Ordinance. 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 for the years ended December 31 are as follows:

	2007 ($000s)	2006 ($000s)
Assessments	$ 4,951	$ 4,671
Pre-93 claims costs	$ 170	$ 1,284
Supplementary compensation benefits	$ 402	$ 379
Recoveries and other receipts	$ 373	$ 330

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

	2007 ($000s)	2006 ($000s)
Due to Government of Yukon (note 3)	$ 1,579	$ 2,032
Due from Government of Yukon - Recoveries (note 3)	$ 140	$ 1,233
Due from Government of Yukon - Assessments	$ 590	$ 249

10. Commitments

The board has commitments for computer software development and maintenance fees, professional legal and medical services, contribution agreements, Prevention Fund agreements and office leases for the next five years and thereafter, in thousands of dollars, as follows:

	Computer software	Professional Services Contracts	Contribution Agreements	Prevention Fund Agreements	Office Leases	Total
2008	31	473	280	690	13	1,487
2009	30	399	280	206	13	928
2010	30	266	280	205	7	788
2011	28	177	-	-	-	205
2012	-	67	-	-	-	67
						$ 3,475

11. Administration Expenses

	2007 ($000s)	2006 ($000s)
Salaries and benefits	5,682	6,129
Consulting and professional	712	832
Amortization	665	271
Communications	297	300
Buildings	289	267
Automobile and travel	196	208
Computer systems	191	237
Write-down of property and equipment	174	-
Board expenses	143	208
General administration	132	136
Staffing and recruitment	117	130
Printing and publications	112	178
Supplies and stationery	67	68
Furniture and equipment	23	25
	$ 8,800	$ 8,989

12. Prevention Expenses

	2007 ($000s)	2006 ($000s)
Contribution Agreements - Reserves	$ 272	$ 269
Contribution Agreements - Prevention Fund	935	267
	$ 1,207	$ 536

13. Contingencies

The Fund is required to pay 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.

14. Subsequent Event

On May 15, 2008, the new *Workers' Compensation Act* received third reading and Assent in the Legislative Assembly. The proposed effective date is July 1, 2008. The new Act includes changes that impact the determination of the benefits liability at December 31, 2007 (note 6).

15. Comparative Figures

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