

COMPENSATION FUND (YUKON)

FINANCIAL STATEMENTS

December 31, 2008

## 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 on a timely basis; 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's 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, 2008, 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

February 26, 2009

## Actuarial Statement of Opinion

I have completed the actuarial valuation of the benefits liability of the Yukon Workers' Compensation Health and Safety Board (the "board") as at December 31, 2008 (the "valuation date"). Details of the data, actuarial assumptions, valuation methods and results are included in the actuarial valuation report as at the valuation date, of which this statement of opinion forms part. In my opinion:

1. The estimate of the actuarial liability as at the valuation date is \$114,709,000. This includes provisions for benefits expected to be paid after the valuation date for claims that occurred on or before the valuation date. This liability includes future administrative expenses for all benefits except Annuity benefits payable at age 65. It does not include any self-insured employers. A provision for future claims arising from long latency occupational diseases is not included in this valuation.
2. The liability as at the valuation date for Annuity contributions and interest already set aside by the board up to the valuation date for purposes of providing pension benefits at age 65 to injured workers and dependent spouses of deceased workers was obtained from the board's finance division staff and is included in item 1 above.
3. The valuation is based on the provisions of the *Workers' Compensation Act* of the Yukon Territory and on the board's policies and practices in effect on the valuation date.
4. The data on which the valuation is based were supplied by the board in accordance with specifications provided by us. 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 benefits liability.
5. The actuarial assumptions adopted in computing the liability are adequate and appropriate, and the methods used are in accordance with accepted actuarial practice for Workers' Compensation organizations in Canada. The economic assumptions are consistent with the funding and investment policies of the board. The discount rates used are disclosed in note 9 to the financial statements.



Conrad Ferguson, F.S.A., F.C.I.A.  
Partner, Morneau Sobeco

*This report has been peer reviewed by Thane MacKay, F.S.A., F.C.I.A.*



Auditor General of Canada  
Vérificatrice générale du Canada

## 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, 2008 and the statements of operations and comprehensive income, changes in funded position, 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 Fund as at December 31, 2008 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  
February 26, 2009

## Compensation Fund

### Balance Sheet

As at December 31

	2008 (\$000s)	2007 (\$000s)
<b>ASSETS</b>		
Accounts receivable (note 4)	\$ 2,354	\$ 3,137
Investments (note 5)	119,877	134,651
Property and equipment (note 6)	6,988	6,802
	<u>\$ 129,219</u>	<u>\$ 144,590</u>
<b>LIABILITIES</b>		
Bank overdraft (note 7)	\$ 4,141	\$ 2,913
Accounts payable and accrued liabilities (note 8)	3,188	3,632
Benefits liability (note 9)	114,709	112,488
Accrued employee benefits (note 10)	857	968
	<u>122,895</u>	<u>120,001</u>
<b>FUNDED POSITION (note 11)</b>		
Prevention Fund	3,123	3,798
Reserves	3,201	20,791
	<u>6,324</u>	<u>24,589</u>
	<u>\$ 129,219</u>	<u>\$ 144,590</u>

Commitments and Contingencies (notes 13 and 17)

*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

	<b>2008</b> (\$000s)	<b>2007</b> (\$000s)
<b>Revenue</b>		
Assessments	\$ 23,878	\$ 22,491
Investments - net (note 14)	(14,806)	(2,958)
Recoveries and other receipts	830	978
	<u>9,902</u>	<u>20,511</u>
<b>Expenses</b>		
Claims expenses (note 9)	17,501	17,125
Administration (note 15)		
General and Administration	7,539	7,015
Occupational Health and Safety	1,300	1,312
Workers' Advocate	405	312
Act Review	313	26
Appeal Tribunal	154	135
Prevention (note 16)	955	1,207
	<u>28,167</u>	<u>27,132</u>
Operating deficit and Comprehensive loss	<u>\$ (18,265)</u>	<u>\$ (6,621)</u>

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

**Compensation Fund**  
*Statement of Changes in Funded Position*  
For the year ended December 31

	<b>2008</b> (\$000s)	<b>2007</b> (\$000s)
<b>FUND BALANCE</b>		
Balance, beginning of year	\$ 24,589	\$ 31,210
Annual operating deficit and comprehensive loss	(18,265)	(6,621)
Balance, end of year	<u>6,324</u>	<u>24,589</u>
<b>Allocation of Funded Position:</b>		
<b>PREVENTION FUND</b>		
Balance, beginning of year	3,798	4,733
Transfer to Stabilization Fund	(675)	(935)
Balance, end of year	<u>3,123</u>	<u>3,798</u>
<b>ADVERSE EVENTS RESERVE</b>		
Balance, beginning of year	16,380	16,380
Balance, end of year	<u>16,380</u>	<u>16,380</u>
<b>STABILIZATION RESERVE</b>		
Balance, beginning of year	4,411	10,097
Annual operating deficit and comprehensive loss	(18,265)	(6,621)
Transfer from Prevention Fund	675	935
Balance, end of year	<u>(13,179)</u>	<u>4,411</u>
<b>Total Reserves Balance</b>	<u>\$ 3,201</u>	<u>\$ 20,791</u>

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

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

	<b>2008</b> <i>(\$000s)</i>	<b>2007</b> <i>(\$000s)</i>
<b>Cash flows from operating activities</b>		
Cash received from:		
Employers, for assessments	\$ 24,144	\$ 21,834
Investment revenue - net	4,874	6,545
Recoveries and other receipts	788	2,036
	<u>29,806</u>	<u>30,415</u>
Cash paid to:		
Claimants or third parties on their behalf	(15,280)	(15,368)
Employees, for salaries and benefits	(6,870)	(6,694)
Suppliers, for administrative and other goods and services	(3,378)	(3,272)
	<u>(25,528)</u>	<u>(25,334)</u>
Cash provided by operating activities	<u>4,278</u>	<u>5,081</u>
<b>Cash flows from investing activities</b>		
Proceeds on sales and maturities of investments	51,167	55,765
Purchases of investments	(55,763)	(61,010)
Purchases of property and equipment	(910)	(1,006)
Cash used in investing activities	<u>(5,506)</u>	<u>(6,251)</u>
Net decrease in cash	(1,228)	(1,170)
Bank overdraft, beginning of year	<u>(2,913)</u>	<u>(1,743)</u>
Bank overdraft, end of year	<u>\$ (4,141)</u>	<u>\$ (2,913)</u>

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



# Compensation Fund

## Notes to the Financial Statements

December 31, 2008

### 1. Nature of Operations

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The Compensation Fund (the Fund) was established by the *Workers' Compensation Act* (the Act) and is administered by the Yukon Workers' Compensation Health and Safety Board (the board) pursuant to the Act. In 2008, the Act was amended and received Assent in the Legislative Assembly. The effective date of the new Act is July 1, 2008. 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

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These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ significantly from those estimates. The more significant management estimates relate to the determination of the benefits liability, accrued employee benefits, useful life of property and equipment, and accounts receivable and assessments revenue.

The following is a summary of the significant accounting policies:

#### (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 17).

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) Financial Instruments**

### **Recognition and measurement**

The board has made the following classifications of the Fund's financial instruments:

#### **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. 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 net of previously recognized unrealized gains and losses. 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 management fees and transaction costs.

Investments denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the end of the year. Income 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.

The board does not enter into any financial derivative instruments as part of managing its investment portfolio.

#### **Other financial assets and liabilities**

Accounts receivable and assessments receivable are classified as loans and receivables. Bank overdraft, accounts payable and accrued liabilities, and assessments refundable are classified as other financial liabilities. All are initially measured at fair value, and subsequently measured at amortized cost using the effective interest rate method. Due to the short-term nature of accounts receivable, assessments receivable, bank overdraft, accounts payable and accrued liabilities, and assessments refundable, their carrying value approximates fair value.

#### **Disclosure and presentation**

Effective January 1, 2008, the Fund adopted the new CICA Handbook Sections 3862, *Financial Instruments – Disclosures* and 3863, *Financial Instruments – Presentation*. The standards require the disclosure of information with regards to the significance of financial instruments for the Fund's financial position and operations, the nature and extent of risks arising from financial instruments to which the Fund is exposed during the period and at the balance sheet date, and how the Fund manages those risks. These standards replace CICA Handbook Section 3861 *Financial Instruments – Disclosure and Presentation*. The additional disclosures required as a result of adopting these standards are included in note 3.

## **(c) Capital disclosures**

Effective January 1, 2008, the Fund adopted the new CICA Handbook Section 1535, *Capital Disclosures*. This section requires disclosure of the board's objectives, policies and processes for managing the Fund's capital, quantitative data about what the board regards as capital and whether capital requirements have been complied with and if it has not complied, the consequences of such non-compliance. The additional disclosures are presented in note 11.

## **(d) 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 12). These amounts are recorded in Recoveries and other receipts in the year in which the related expenses are incurred.

**(e) Recoveries from third parties**

In certain limited circumstances, under section 51 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 recoveries is recorded in the year the settlement occurs. No provision is made in the benefits liability for possible future third party recoveries because of their contingent nature.

**(f) 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

**(g) 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 leave, 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, 2008 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.

**(h) 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 12).

**(i) Future accounting changes**

In early 2008, the Canadian Accounting Standards Board announced that publicly accountable Canadian reporting entities will be required to follow International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The Fund will be required to have comparative figures for 2010 and an opening balance sheet at the beginning of 2010 to comply with IFRS standards. Management is assessing the impact to the financial statements of adopting IFRS.

### 3. Risk Management

The Fund has exposure to the following financial risks: credit risk, liquidity risk, and market risk (which also includes inflation risk, interest rate risk and currency risk). The Fund's exposure to these risks arises primarily in relation to its investment portfolio, but also in relation to its other financial assets and liabilities.

The Fund's management is responsible for monitoring performance, recommending changes to the Investment Policy, and selecting fund managers. The Board of Directors is ultimately responsible for governance and strategic direction of the investment portfolio through its review and approval of the Investment Policy. The portfolio managers' compliance with this Investment Policy is monitored on a regular basis. Quarterly, the board retains independent consultants to benchmark the performance of its fund managers and to advise on the appropriateness and effectiveness of its Investment Policy and practices.

The following sections present information about the Fund's exposure to each of the above risks and the board's objectives, policies and processes for measuring and managing each risk.

#### Credit risk

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 or the equivalent rating by Moody's, 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 15% of the portfolio. The board has stayed within these guidelines during the year.

#### Fixed Income Portfolio Credit Ratings

Ratings:					2008	2007
	AAA	AA	A	BBB	(\$000's)	(\$000's)
Fixed Income Securities	25,823	16,455	15,152	3,015	60,445	61,698
Totals	\$ 25,823	\$ 16,455	\$ 15,152	\$ 3,015	\$ 60,445	\$ 61,698

The Fund's exposure to credit risk associated with its accounts receivable and assessments receivable is the risk that an employer or a cost recovery customer (customer) will be unable to pay amounts due to the Fund. Allowances for doubtful accounts are provided for potential losses that have been incurred at the balance sheet date. The amounts disclosed on the balance sheet are net of these allowances for bad debts. Accounts receivable and assessments receivable are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. The board takes into consideration the customer's payment history, their credit worthiness and the then current economic environment in which the customer operates to assess impairment. The board recognizes a specific bad debt provision when management considers that the expected recovery is less than the actual amount receivable. All bad debts are charged to administration expenses.

The board believes that the credit risk of accounts receivable and assessments receivable is mitigated by the following:

- i. The employer base is dispersed across various industries, with government comprising a significant concentration. The non government based employers may be affected by any downturns due to prevailing economic conditions.
- ii. As at December 31, 2008, approximately 97% of accounts receivable and assessments receivable are outstanding for less than 90 days. The board does not require collateral or other security from employers or customers for accounts receivable.
- iii. The board has the power and remedies to enforce payment owing to the Fund.

All of the Fund's accounts receivable and assessments receivable are reviewed for indicators of impairment. A provision for doubtful accounts receivable and assessments receivable of \$89,000 (2007 - \$41,000) is included in Accounts Receivable.

#### Securities - lending risk

To generate additional income, the board's fund manager may lend any of its investments to eligible third parties for short periods. These loans are secured against loss with cash or readily marketable securities having a minimum fair value of 100% of the loan. Included in the fund manager's pooled fund investments, at year end, the board's share of outstanding securities on loan amounted to nil (2007 - \$3,851,000). The amount of collateral held for the securities at year end was nil (2007 - \$4,144,000). For the year, securities-lending transactions within the board's fund manager's pooled investment funds generated incremental income of \$15,000 (2007 - \$5,000).

**Liquidity risk**

Liquidity risk is the risk that the Fund is not able to meet its financial obligations as they become due or can do so only at excessive cost. The board's operations are financed through a combination of the cash flows from operations and investments. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. The board has access to the Government of Yukon overall line of credit facility with the Government's banker. This access provides the board with overdraft coverage when needed. The Fund's accounts payable had a carrying value of \$3,188,000 as at December 31, 2008 (2007 – \$3,632,000) and are all due within 60 days.

**Market risk**

The Fund is exposed to market risk, which is the risk that the fair value or future cash flows of its investments will fluctuate in the future because of economic conditions. Market risk is managed through diversification between different asset classes and geographic diversification and by limiting the concentration in any single entity to 15% or less of the fair value of the investment fund.

The table below presents the Fund's investment targets and actual asset mix at fair value as at December 31, 2008:

	Target		Actual	
	Minimum	Maximum	2008	2007
<b>Equities</b>				
Canadian	0%	25%	15.00%	16.30%
United States	0%	25%	14.00%	15.80%
International	0%	25%	17.60%	20.10%
<b>Fixed Income</b>				
Short-term Investments	0%	10%	2.60%	1.80%
Bonds	35%	85%	50.80%	46.00%
			<u>100.00%</u>	<u>100.00%</u>

The table below presents the effect of a material adverse change in the fair value of each of the categories of equities in the Fund's investments portfolio:

% change in fair value	2008 (\$000's)		2007 (\$000's)	
	10%	20%	10%	20%
<b>Equities</b>				
Canadian	\$ (1,775)	\$ (3,550)	\$ (2,184)	\$ (4,368)
United States	(1,691)	(3,382)	(2,114)	(4,228)
International	(2,112)	(4,224)	(2,702)	(5,404)

**Inflation risk**

Inflation risk is the risk that a general increase in price level may result in loss of future purchasing power for current monetary assets. The board manages inflation risk through its investment allocation between equities and fixed income investments.

**Interest rate risk**

Interest rate risk is the risk that the value of a financial security will fluctuate due to changes in market interest rates. The Fund's investment portfolio is exposed to interest rate risk through its holdings of short and long-term fixed income investments. Interest rate risk is minimized by actively managing the duration of the fixed income investments.

The table below presents the effects of a 50 and 100 bps<sup>1</sup> adverse change in the nominal interest rate on the bond portfolio:

+ bp change in nominal interest rate	2008 (\$000's)		2007 (\$000's)	
	+50bp	+100bp	+50bp	+100bp
Bonds	\$ (1,810)	\$ (3,620)	\$ (2,143)	\$ (4,282)

(1) One basis point (bp) equals 1/100 of 1%, 50 bp's = 50/100 of 1% or 0.5%.

The table below presents the remaining terms to maturity at fair value, along with the average effective yields for each maturity, for fixed income investments exposed to inflation and interest rate risk as at December 31, 2008:

	Remaining term to maturity			2008 (\$000's)	2007 (\$000's)
	1 - 5 years	5 - 10 years	> 10 years	Total	Total
Bonds	\$ 27,931	\$ 15,397	\$ 17,117	\$ 60,445	\$ 61,698
Average effective yield	3.24%	4.80%	5.06%	4.15%	4.62%

#### **Currency risk**

Currency risk is the risk that the value of financial assets and liabilities denominated in foreign currencies will fluctuate due to changes in their respective exchange rates.

Within its pooled investments, the Fund is exposed to exchange rate volatility that is managed by the contracted fund manager. The board does not undertake long-term hedging strategies for the currency risk of foreign investments. The fair value of the Fund's US dollar investments as at December 31, 2008 was \$27,781,000 (2007 – \$35,297,000). The Fund did not hold any investments in other foreign currencies at December 31, 2008 (2007 – nil).

The table below presents the effects of a change in the Canadian/US dollar exchange rates for all equities held in US dollars:

10% appreciation in the Canadian Dollar	2008 (\$000's)	2007 (\$000's)
	CDN / USD	CDN / USD
<b>US Dollar based Equities</b>	\$ (2,526)	\$ (3,208)

#### **Derivative financial instruments**

The board does not have any derivative financial instruments at year end (2007 – nil).

#### **4. Accounts Receivable**

	2008 (\$000s)	2007 (\$000s)
<b>Receivable</b>		
Assessments	\$ 2,040	\$ 2,865
Government of Yukon (note 12)	204	140
Other receivables	110	132
	<u>\$ 2,354</u>	<u>\$ 3,137</u>

## 5. Investments

The Board of Directors has established an investment 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.

	2008 (\$000s)	2007 (\$000s)
	Fair Value	Fair Value
<b>Fixed-term securities</b>		
Federal bonds	\$ 13,683	\$ 19,715
Provincial bonds	4,290	2,822
Corporate bonds	42,472	39,161
	<u>60,445</u>	<u>61,698</u>
<b>Equities</b>		
Canadian	17,750	21,844
United States	16,914	21,145
International	21,122	27,018
	<u>55,786</u>	<u>70,007</u>
<b>Other Investments</b>		
Cash on account	103	99
Short term investments	3,136	1,758
Accrued interest receivable	500	1,148
	<u>3,739</u>	<u>3,005</u>
Investments, sub-total	119,970	134,710
Management fee accrual	(93)	(59)
	<u>\$ 119,877</u>	<u>\$ 134,651</u>

## 6. Property and Equipment

	2008 (\$000s)			2007 (\$000s)
	Cost	Accumulated Amortization	Net Carrying Value	Net Carrying Value
Land	\$ 390	\$ -	\$ 390	\$ 390
Buildings	3,731	(1,380)	2,351	2,353
Furniture and equipment	630	(557)	73	98
Computer systems and equipment	6,336	(2,299)	4,037	3,801
Systems development <sup>(1)</sup>	137	-	137	160
	<u>\$ 11,224</u>	<u>\$ (4,236)</u>	<u>\$ 6,988</u>	<u>\$ 6,802</u>

<sup>(1)</sup> As of December 31, 2008, costs of \$137,000 (2007 - nil) for the Occupational Health and Safety system were capitalized and will not be amortized until 2010 when the system is substantially complete and in use.

## 7. Bank Overdraft

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. At December 31, 2008, the Fund was not required to pay interest on the overdraft.

## 8. Accounts Payable and Accrued Liabilities

	2008 (\$000s)	2007 (\$000s)
<b>Payable</b>		
Assessments	\$ 431	\$ 988
Government of Yukon (note 12)	2,191	1,579
Other payables and accrued liabilities	566	1,065
	<u>\$ 3,188</u>	<u>\$ 3,632</u>

## 9. Benefits Liability

	2008 (\$000s)			2007 (\$000s)
	Medical Aid & Compensation	Pension	Annuity	Total
Balance, beginning of year	\$ 83,786	\$ 22,235	\$ 6,467	\$ 112,488
Add claims costs incurred:				
Current year injuries	13,964	416	-	14,380
Prior years' injuries	1,901	1,247	(27)	3,121
	<u>15,865</u>	<u>1,663</u>	<u>(27)</u>	<u>17,501</u>
Less claims payments made:				
Current year injuries	3,008	-	-	3,008
Prior years' injuries	10,762	1,681	(171)	12,272
	<u>13,770</u>	<u>1,681</u>	<u>(171)</u>	<u>15,280</u>
Balance, end of year	<u>\$ 85,881</u>	<u>\$ 22,217</u>	<u>\$ 6,611</u>	<u>\$ 114,709</u>

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

	2008	2007
Discount rate for medical aid benefits - net <sup>(1)</sup>	1.50%	1.50%
Discount rate for compensation benefits - net <sup>(2)</sup>	4.00%	4.00%
Discount rate for survivor and other pension benefits - net <sup>(2)</sup>	4.00%	4.00%

<sup>(1)</sup> Net of a discount rate attributable to inflation of 5.5%

<sup>(2)</sup> Net of a discount rate attributable to inflation of 3.0%



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 and the actuary's best estimates of long term economic and actuarial assumptions. 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 and actuarial assumptions included the following:

	Increase (decrease) in benefits liability	
	2008 (\$000s)	2007 (\$000s)
Adjustments to mortality factors	\$ 1,242	\$ 1,224
Other changes in actuarial assumptions	(570)	-
Favourable claims experience during year	(3,544)	(1,249)
Change in provision for recovery from injury	-	4,773
Legislative change	-	(6,711)
	<u>\$ (2,872)</u>	<u>\$ (1,963)</u>

## 10. Employee Future Benefits

### (a) Accrued employee benefits

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

	2008 (\$000s)	2007 (\$000s)
Accrued employee benefits, beginning of the year	\$ 968	\$ 1,587
Payments made during the year	(48)	(164)
Costs for the year	107	268
Changes in Actuarial assumptions	(170)	(723)
Accrued employee benefits, end of the year	<u>\$ 857</u>	<u>\$ 968</u>

The key assumptions used to calculate the accrued employee benefits are a liability discount rate of 7.5% (2007 - 5.5%) and an annual rate of general escalation in wages of 3% (2007 - 3%).

### (b) Public Service Pension Plan

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

	2008 (\$000s)	2007 (\$000s)
Employees' contributions	\$ 315	\$ 269
Fund contributions	633	573

## 11. Capital Management and Reserves

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The *Workers' Compensation Act* establishes that one of the purposes of the Act is to maintain a solvent Compensation Fund managed in the interest of workers and employers. To ensure that the Fund is able to meet its financial obligations, premiums charged to employers over time must be sufficient to cover current and future costs of all claims incurred by injured workers. These assessment revenues combined with investment returns from the Fund's assets are designed to provide the foundation for the Fund to meet all current and future obligations for injured workers.

The Board of Directors considers that capital includes all assets and liabilities. There have been no changes in the objectives and definition of capital from the previous period. The Fund does not have any external capital requirements. 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 and investment returns. 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 allocated to reserves.

The Board of Directors uses the Funding Ratio (Assets/Liabilities) to manage capital. At December 31, 2008, the Funding Ratio is 105% (2007 – 120%). The decline in the Funding Ratio is a result of the decrease in the Investments portfolio caused by the sharp downturn in the global equity markets during 2008.

In 2008, the Board of Directors amended the Fund's Funding Policy established in 2005, which provides for the establishment of a temporary fund (Prevention Fund) and two new reserves (Adverse Events Reserve and Stabilization Reserve).

Under the current Funding Policy, the Prevention Fund and two reserves are established as follows:

### *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 2008, a total of \$675,000 (2007 – \$935,000) was incurred on accident prevention and workplace safety initiatives. At December 31, 2008, the Prevention Fund has a balance of \$3,123,000 (2007 – \$3,798,000).

### *Reserves:*

#### (I) Adverse Events Reserve

The Adverse Events Reserve is to provide funding for infrequent, unexpected adverse claims experience and catastrophic events to protect employers from the sudden impact of the costs of these types of events. The target level for this reserve is \$18,881,000 (2007 – \$18,569,000), 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; 2008 – nil (2007 – nil). This reserve is limited to its target level. Funds in excess of the target level are transferred to the Stabilization Reserve; 2008 – nil (2007 – nil). At December 31, 2008, the Adverse Events Reserve has a balance of \$16,380,000 (2007 – \$16,380,000).

Transfers cannot be made from this reserve to any other temporary fund or reserve if the transfer will reduce this reserve below its target level.

A funding deficiency exists when the reserve is below its target level; 2008 – \$2,501,000 (2007 – \$2,189,000). 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.

In 2009 a premium surcharge was included in the assessment rates as required by the Funding Policy.

## (ii) 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; 2008 – \$11,471,000 (2007 – \$11,249,000). 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), 2008 – (\$17,590,000) (2007 – (\$5,686,000)), net of any amounts charged to the temporary fund and the Adverse Events Reserve, is transferred to this reserve. At December 31, 2008, the Stabilization Reserve has a deficit balance of \$13,179,000 (2007 – surplus balance of \$4,411,000).

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, 2008 – \$24,650,000 (2007 – \$6,838,000), 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, 2008 – \$7,456,000 (2007 – \$7,312,000), 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.

In 2009 a premium surcharge was included in the assessment rates as required by the Funding Policy.

## 12. Related Party Transactions

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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, 2008, the Fund was not required to pay interest on the overdraft.

The Compensation Fund paid the Government \$858,000 (2007 – \$951,000) for building maintenance, computer, office supplies, payroll processing, recruitment, vehicle and rehabilitation services. The Fund reimbursed the Government for payroll costs of \$6,870,000 (2007 – \$6,218,000).

The Government pays certain claims costs to the Compensation Fund for claims prior to 1993 (note 2d) 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:

	2008	2007
	(\$000s)	(\$000s)
Assessments	\$ 5,640	\$ 4,951
Pre-93 claims costs	43	170
Supplementary compensation benefits	397	402
Recoveries and other receipts	343	373

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

	<b>2008</b> (\$000s)	<b>2007</b> (\$000s)
Due to Government of Yukon (note 8)	\$ 2,191	\$ 1,579
Due from Government of Yukon - Recoveries (note 4)	204	140
Due from Government of Yukon - Assessments	-	590

### 13. 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, in thousands of dollars, as follows:

	<b>Computer software</b>	<b>Professional Services Contracts</b>	<b>Contribution Agreements</b>	<b>Prevention Fund Agreements</b>	<b>Office Leases</b>	<b>Total</b>
<b>2009</b>	32	399	280	225	13	949
<b>2010</b>	30	266	280	205	7	788
<b>2011</b>	28	177	-	-	-	205
<b>2012</b>	-	67	-	-	-	67
<b>2013</b>	-	-	-	-	-	-
						<u>\$ 2,009</u>

### 14. Investment Revenue

	<b>2008</b> (\$000s)	<b>2007</b> (\$000s)
Interest and dividends		
Bonds and short-term investments	\$ 3,116	\$ 3,098
Equities	2,197	3,895
	<u>5,313</u>	<u>6,993</u>
Gains and (losses) - net		
Realized (losses) gains in the year	(21)	989
Change in fair value in the year	(19,652)	(10,484)
	<u>(14,360)</u>	<u>(2,502)</u>
Investment management fees	(446)	(456)
	<u>\$ (14,806)</u>	<u>\$ (2,958)</u>

## 15. Administration Expenses

	2008 (\$000s)	2007 (\$000s)
Salaries and benefits	\$ 6,556	\$ 5,682
Consulting and professional	803	712
Amortization	723	665
General administration	286	132
Buildings	285	289
Automobile and travel	224	196
Communications	212	297
Computer systems	192	191
Board expenses	158	143
Staffing and recruitment	98	117
Printing and publications	85	112
Supplies and stationery	58	67
Furniture and equipment	31	23
Write-down of property and equipment	-	174
	<u>\$ 9,711</u>	<u>\$ 8,800</u>

## 16. Prevention Expenses

	2008 (\$000s)	2007 (\$000s)
Contribution Agreements - funded through the Prevention Fund	\$ 675	\$ 935
Contribution Agreements - funded through the Stabilization Reserve	280	272
	<u>\$ 955</u>	<u>\$ 1,207</u>

## 17. 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 or the financial statements.

Due to the nature of the board's operations, various legal matters are pending. In the opinion of management, these matters will not have a material effect on the Fund's financial position or results of operations.

## 18. Comparative Figures

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