COMPENSATION FUND (YUKON)

FINANCIAL STATEMENTS

December 31, 2010

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, 2010, 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 Shepell, 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

Valerie Royle, BComm (Hons), MBA
President and Chief Executive Officer

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

April 19, 2011

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, 2010 (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 $115,302,000. 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 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 benefits 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 11 to the financial statements.

Conrad Ferguson, F.C.I.A.

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

Auditor General of Canada
Vérificatrice générale du Canada

INDEPENDENT AUDITOR'S REPORT

To the Minister responsible for the Compensation Fund

Report on the Financial Statements

I have audited the accompanying financial statements of the Compensation Fund, which comprise the balance sheet as at 31 December 2010, and the statement of operations and comprehensive income, statement of changes in funded position and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Compensation Fund as at 31 December 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the *Workers' Compensation Act*, I report that, in my opinion, Canadian generally accepted accounting 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 by the Compensation Fund and the financial statements are in agreement therewith. In addition, the transactions of the Compensation 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* of Yukon and regulations.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

19 April 2011
Vancouver, Canada

Compensation Fund
Balance Sheet
As at December 31

		2010 ($000s)		2009 ($000s)
ASSETS				
Cash	$	708	$	-
Accounts receivable (note 5)		4,165		2,791
Investments (note 6)		149,715		134,823
Property and equipment (note 7)		2,814		2,885
Intangible assets (note 8)		4,381		4,334
	$	161,783	$	144,833
LIABILITIES				
Bank overdraft (note 9)	$	-	$	994
Accounts payable and accrued liabilities (note 10)		3,878		4,153
Benefits liability (note 11)		115,302		111,991
Accrued employee benefits (note 12a)		1,327		1,092
		120,507		118,230
FUNDED POSITION (note 13)				
Prevention Fund		550		800
Reserves		40,726		25,803
		41,276		26,603
	$	161,783	$	144,833

Commitments and Contingencies (notes 15 and 19)

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

Approved by the Yukon Workers' Compensation Health and Safety Board

Mark Pike
Chair

Compensation Fund

Statement of Operations and Comprehensive Income

For the year ended December 31

	2010 ($000s)	2009 ($000s)
Revenue		
Assessments	$ 30,899	$ 25,018
Investments - net (note 16)	9,865	15,904
Recoveries and other receipts	805	668
	41,569	41,590
Expenses		
Claims expenses (note 11)	15,871	10,086
Administration (note 17)		
General and Administration	8,214	8,337
Occupational Health and Safety	1,544	1,408
Workers' Advocate	326	312
Act Review	80	112
Appeal Tribunal	171	141
Prevention (note 18)	690	915
	26,896	21,311
Income before other comprehensive income	14,673	20,279
Other comprehensive income	-	-
Operating surplus and comprehensive income	$ 14,673	$ 20,279

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

	2010 ($000s)	2009 ($000s)
FUNDED POSITION		
Balance, beginning of year	$ 26,603	$ 6,324
Operating surplus and comprehensive income	14,673	20,279
Balance, end of year	$ 41,276	$ 26,603
Allocation of Funded Position:		
PREVENTION FUND		
Balance, beginning of year	800	3,123
Transfer to Stabilization Reserve	(250)	(429)
Transfer to Adverse Events Reserve	-	(1,894)
Balance, end of year	$ 550	$ 800
ADVERSE EVENTS RESERVE		
Balance, beginning of year	18,274	16,380
Transfer from Stabilization Reserve	1,017	-
Transfer from Prevention Fund	-	1,894
Balance, end of year	19,291	18,274
STABILIZATION RESERVE		
Balance, beginning of year	7,529	(13,179)
Operating surplus and comprehensive income	14,673	20,279
Transfer from Prevention Fund	250	429
Transfer to Adverse Events Reserve	(1,017)	-
Balance, end of year	21,435	7,529
Total Reserves Balance	$ 40,726	$ 25,803

The accompanying notes are an integral part of these financial statements

Compensation Fund

Statement of Cash Flows

For the year ended December 31

		2010 ($000s)		2009 ($000s)
Operating activities				
Cash received from:				
Employers, for assessments	$	30,133	$	25,241
Investment revenue - net		4,405		4,376
Recoveries and other receipts		691		711
		35,229		30,328
Cash paid to:				
Claimants or third parties on their behalf		(12,560)		(12,804)
Employees, for salaries and benefits		(6,946)		(6,804)
Suppliers, for administrative and other goods and services		(3,993)		(3,294)
		(23,499)		(22,902)
Total cash provided by operating activities		11,730		7,426
Investing activities				
Proceeds on sales and maturities of investments		61,703		54,381
Purchases of investments		(71,097)		(57,757)
Purchases of property and equipment		(103)		(145)
Purchases of intangible assets		(531)		(758)
Total cash used in investing activities		(10,028)		(4,279)
Net increase in cash		1,702		3,147
Bank overdraft, beginning of year		(994)		(4,141)
Cash (bank overdraft), end of year	$	708	$	(994)

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

Compensation Fund
Notes to the Financial Statements

December 31, 2010

1. Nature of Operations

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 was 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. Future Accounting Changes

International Financial Reporting Standards (IFRS)

In February 2008, the CICA Accounting Standards Board confirmed that the transition to IFRS from Canadian generally accepted accounting principles will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010. The Fund will be adopting IFRS effective January 1, 2011.

3. Significant Accounting Policies

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 intangible assets, 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 19).

The benefits liability is comprised of three liabilities - 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 First Nations or Inuit 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.

Cash
Cash includes cash on hand and bank balances. Cash and short term investments held by custodians for investment purposes are not available for general use and are included in investments.

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 values approximate their fair values.

Fair value hierarchy

The Fund uses the following hierarchy for determining and disclosing the fair value of its financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Changes in valuation methods may result in transfers into or out of an instrument's assigned level. There were no such transfers between levels in 2010.

(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 14). These amounts are recorded in Recoveries and other receipts in the year in which the related expenses are incurred.

(d) Recoveries from third parties

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 injury. If settled, or as a result of a Court decision, the legal costs and costs associated with the claim are deducted from the settlement. Any funds remaining will be paid to the claimant. 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.

(e) Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is calculated based on the straight-line method, using rates based on the estimated useful lives of the assets as follows:

Buildings	50 years
Furniture and equipment	5 – 10 years
Computer equipment	5 years

Management evaluates the carrying values of property and equipment for indicators of potential impairment whenever changes in circumstances occur. On evaluation of the factors of potential impairment, if an impairment has been determined by management, the asset is written down to its fair value.

The Fund changed its accounting estimate for the amortization of property and equipment. Buildings were amortized at 40 years. The amortization rate was changed to 50 years to account for the useful life of the buildings. Furniture and equipment was amortized at 5 years. The amortization rate was changed to 5 – 10 years to account for the useful life of the furniture and equipment.

(f) Intangible assets

Intangible assets are recorded at cost less accumulated amortization. Salaries, wages and benefits directly related to internally developed software systems are included in the asset's cost. When the asset is substantially complete and ready for use, development costs capitalization will cease and the costs will be transferred to the related asset category and amortized. Amortization is calculated based on the straight-line method, using rates based on the estimated useful lives of the assets as follows:

Systems and software	5 to 12 years

Management evaluates the carrying values of intangible assets for indicators of potential impairment whenever changes in circumstances occur. On evaluation of the factors of potential impairment, if an impairment has been determined by management, the asset is written down to its fair value.

(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 leave, and severance benefits. The benefit obligation is determined on an actuarial basis. The liability for accrued employee benefits is based on the December 31, 2010 actuarial valuation as calculated by the board's actuary. The obligation for vacation leave, sick leave, severance and other benefits are calculated using the projected benefit method prorated on service.

(h) Government funding

In 2005, the Government of Yukon approved the reinstatement of ongoing funding for the Mine Safety Program through an annual grant to the board. The Program, which was transferred to the board in 1993, provides mine rescue training and support services as well as mine safety inspection services. The 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 14).

4. 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 financial 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:	AAA	AA	A	BBB	2010 *($000's)*	2009 *($000's)*
Fixed Income Securities	$ 29,231	$ 16,313	$ 20,392	$ 2,925	$ 68,861	$ 65,568
Totals	$ 29,231	$ 16,313	$ 20,392	$ 2,925	$ 68,861	$ 65,568

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. The Fund's maximum exposure to credit risk associated with its accounts receivable and assessments receivable is $4,165,000 (2009 - $2,791,000). 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 may 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, 2010, approximately 98% (2009 – 98%) 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 or assessments 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 $92,000 (2009 – $55,000) is included in accounts receivable on the balance sheet.

Credit risk arising from securities - lending activities

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 (2009 – nil). The amount of collateral held for the securities at year end was nil (2009 – nil). For the year, securities-lending transactions within the board's fund manager's pooled investment funds generated incremental income of nil (2009 – nil).

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 and accrued liabilities had a carrying value of $3,878,000 as at December 31, 2010 (2009 – $4,153,000) 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, 2010:

	Target		Actual	
	Minimum	**Maximum**	**2010**	**2009**
Equities				
Canadian	0%	25%	17.50%	15.90%
United States	0%	25%	16.90%	17.10%
International	0%	25%	18.30%	17.40%
Fixed Income				
Short-term Investments	0%	10%	1.10%	0.60%
Bonds	35%	85%	46.20%	49.00%
			100.00%	100.00%

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:

	2010 ($000's)		2009 ($000's)	
Percentage decrease in fair value	-10%	-20%	-10%	-20%
Equities				
Canadian	$ (2,612)	$ (5,224)	$ (2,141)	$ (4,282)
United States	(2,524)	(5,048)	(2,305)	(4,610)
International	(2,737)	(5,474)	(2,348)	(4,696)
Total decrease in fair value of equity investments	$ (7,873)	$ (15,746)	$ (6,794)	$ (13,588)

Inflation risk
Inflation risk is the risk that a general increase in price level may result in loss of future purchasing power of 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[1] adverse change in the nominal interest rate on the fair value of the bond portfolio:

	2010 ($000's)		2009 ($000's)	
Positive bp change in nominal interest rate	+50bp	+100bp	+50bp	+100bp
Bonds	$ (1,970)	$ (3,940)	$ (1,819)	$ (3,638)
Total decrease in fair value of fixed income investments	$ (1,970)	$ (3,940)	$ (1,819)	$ (3,638)

(1) One basis point (bp) equals1/100 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, 2010:

	Remaining term to maturity			2010 ($000's)	2009 ($000's)
	1 - 5 years	5 - 10 years	> 10 years	Total	Total
Bonds	$ 33,959	$ 18,972	$ 15,930	$ 68,861	$ 65,568
Average effective yield	2.43%	3.83%	4.43%	3.28%	3.49%

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

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, 2010 was $39,200,000 (2009 – $35,400,000). The Fund did not hold any investments in other foreign currencies at December 31, 2010 (2009 – nil).

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

	2010 *($000's)*	2009 *($000's)*
Appreciation in the Canadian Dollar relative to the U.S. Dollar	+10%	+10%
Decrease in fair value of US Dollar based Equites	$ (3,563)	$ (3,218)

Derivative financial instruments
The Fund did not have any derivative financial instruments during the year or at year end (2009 – nil).

5. Accounts Receivable

	2010 *($000s)*	2009 *($000s)*
Receivable		
Assessments	$ 3,750	$ 2,509
Government of Yukon (note 14)	129	69
Other receivables	286	213
	$ 4,165	$ 2,791

6. 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.

	2010 *($000s)*	2009 *($000s)*
	Fair Value	Fair Value
Fixed-term securities		
Federal bonds	$ 23,096	$ 24,755
Provincial bonds	3,220	3,178
Corporate bonds	42,545	37,635
	68,861	65,568
Equities		
Canadian	26,122	21,409
United States	25,238	23,051
International	27,370	23,482
	78,730	67,942
Other Investments		
Cash on account	119	108
Short-term investments	2,101	978
Accrued interest receivable	(16)	311
	2,204	1,397
Investments, sub-total	149,795	134,907
Management fee accrual	(80)	(84)
	$ 149,715	$ 134,823

As at December 31, 2010, the Fund held the following financial instruments measured at fair value:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	Total
Cash and Cash Equivalents	$ 2,124	$ -	$ -	$ 2,124
Bonds	6,716	62,145	-	68,861
Equities	36,106	-	-	36,106
Pooled Funds	-	42,624	-	42,624
Total Investments	$ 44,946	$ 104,769	$ -	$ 149,715

7. Property and Equipment

	2010 ($000s)			2009 ($000s)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 390	$ -	$ 390	$ 390
Buildings	3,772	(1,565)	2,207	2,269
Furniture and equipment	518	(431)	87	94
Computer systems and equipment	515	(385)	130	132
	$ 5,195	$ (2,381)	$ 2,814	$ 2,885

8. Intangible Assets

	2010 ($000s)			2009 ($000s)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Software and systems	$ 6,579	$ (2,900)	$ 3,679	$ 3,917
Systems under development (1)	702	-	702	417
	$ 7,281	$ (2,900)	$ 4,381	$ 4,334

(1) As of December 31, 2010, costs of $702,000 (2009 - $417,000) for the Occupational Health and Safety system were capitalized and will not be amortized until 2011 when the system is substantially complete and in use.

9. 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. In 2010, the Fund paid no interest on the overdraft (2009 – $16,598).

10. Accounts Payable and Accrued Liabilities

		2010 ($000s)	2009 ($000s)
Payable			
	Assessments	$ 1,665	$ 1,151
	Government of Yukon (note 14)	1,730	2,373
	Other payables and accrued liabilities	483	629
		$ 3,878	$ 4,153

11. Benefits Liability

	2010 ($000s)				2009 ($000s)
	Medical Aid & Compensation	**Pension**	**Annuity**	**Total**	**Total**
Balance, beginning of year	$ 83,301	$ 22,013	$ 6,677	$ 111,991	$ 114,709
Add claims costs incurred:					
Current year injuries	13,733	803	-	14,536	12,230
Prior years' injuries	(1,532)	2,733	134	1,335	(2,144)
	12,201	3,536	134	15,871	10,086
Less claims payments made:					
Current year injuries	3,323	-	-	3,323	2,783
Prior years' injuries	7,590	1,899	(252)	9,237	10,021
	10,913	1,899	(252)	12,560	12,804
Balance, end of year	$ 84,589	$ 23,650	$ 7,063	$ 115,302	$ 111,991

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

	2010	2009
Discount rate for medical aid benefits - net (1)	1.00%	1.50%
Discount rate for compensation benefits - net (2)	3.50%	4.00%
Discount rate for survivor and other pension benefits - net (2)	3.50%	4.00%

(1) Net of a discount rate attributable to inflation of 5.5%
(2) 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.

Significant changes in the benefits liability due to actuarial assumptions included the following:

	Increase (decrease) in benefits liability 2010 ($000s)	2009 ($000s)
Other changes in actuarial assumptions	$ 2,417	$ (1,871)
Favourable claims experience during year	(5,243)	(3,500)
	$ (2,826)	$ (5,371)

The most significant assumption in the determination of the benefits liability is the net discount rate. The net discount rate is the assumed rate of return in excess of the assumed inflation rate. A reduction in the net discount rate would increase the actuarial present value of the benefits liability. An increase in the discount rate would decrease the actuarial present value.

In 2010 the discount rate was decreased by 50 basis points resulting in an increase in the Benefit Liability of $4,800,000. The board determined that given the Fund's asset mix in its investment portfolio this decrease would reflect a more appropriate discount rate.

Medical benefits represent approximately 19% of the benefits liability. An increase in the assumed excess medical inflation rate (above the assumed inflation rate) would result in an increase in the benefits liability for medical benefits.

	2010 ($000s)		2009 ($000s)	
Percentage change in assumed rates	+1%	-1%	+1%	-1%
Increase (decrease) in benefits liability from change in net discount rate	$ (8,086)	$ 9,319	$ (7,644)	$ 8,768
Increase (decrease) in benefits liability from change in excess medical inflation rate	1,641	(1,424)	1,660	(1,435)

As at December 31, 2010, seven claims were investigated by the Investigations Unit. Four of the investigations are awaiting decisions on final disposition while three are currently under review by the Investigations Unit. The outcome of the investigations is not determinable at this time and therefore, the potential future effect of these claims is not reflected in the benefits liability.

12. Employee Future Benefits

(a). Accrued employee benefits

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

	2010 ($000s)	2009 ($000s)
Accrued employee benefits, beginning of the year	$ 1,092	$ 857
Payments made during the year	(61)	(72)
Costs for the year	160	155
Actuarial loss from changes in actuarial assumptions	136	152
Accrued employee benefits, end of the year	$ 1,327	$ 1,092

The key assumptions used to calculate the accrued employee benefits are a liability discount rate of 5.0% (2009 – 6.0%) and an annual rate of general escalation in wages of 3% (2009 – 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:

	2010 ($000s)	2009 ($000s)
Employees' contributions	$ 350	$ 331
Fund contributions	671	632
Total contributions	$ 1,021	$ 963

13. Capital Management and Reserves

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, 2010, the Funding Ratio is 134% (2009 – 123%).

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 injury prevention and workplace safety initiatives. It was initially established in 2005, with $5,000,000 and will not be replenished once depleted. In 2010, a total of $250,000 (2009 – $429,000) was incurred on injury prevention and workplace safety initiatives.

The Board of Directors decided to wind down the Prevention Fund in 2009. The remaining balance in the Prevention Fund will be used to cover future commitments from current funding agreements that were in place prior to this decision. At December 31, 2010, the Prevention Fund has a balance of $550,000 (2009 – $800,000).

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 $19,291,000 (2009 – $18,883,000), 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, resulting in a charge of nil for 2010 (2009 – nil). This reserve is limited to its target level. Funds in excess of the target level are transferred to the Stabilization Reserve, with nil funds transferred in 2010 (2009 – nil). At December 31, 2010, the Adverse Events Reserve has a balance of $19,291,000 (2009 – $18,274,000).

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. There was a funding deficiency of nil as at December 31, 2010 (2009 – $609,000). 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 2010, no surcharge was included in the assessment rates as none was 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, which was $11,530,000 as at December 31, 2010 (2009 – $11,199,000). 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, net of any amounts charged to the temporary fund and the Adverse Events Reserve, is transferred to this reserve. This resulted in an increase to this reserve in 2010 of $13,906,000 (2009 – $20,708,000). At December 31, 2010, the Stabilization Reserve has a balance of $21,435,000 (2009 – $7,529,000).

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 remaining surplus will be applied as an employer assessment premium rebate based on an established schedule as outlined in the Funding Policy.

A funding deficiency exists when the reserve balance is below its target level. There was a funding deficiency of nil as at December 31, 2010 (2009 – $3,670,000). 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, which was $7,495,000 as at December 31, 2010 (2009 – $7,279,000), 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 2010 no surcharge was included in the assessment rates as none was required by the Funding Policy.

14. 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, 2010, the Fund was required to pay no interest on the overdraft (2009 – $16,598).

During 2010, the Compensation Fund paid the Government $777,000 (2009 – $749,000) for building maintenance, computer, office supplies, payroll processing, recruitment, vehicle and rehabilitation services. The Fund also reimbursed the Government for payroll costs of $6,913,000 (2009 – $6,825,000).

The Government pays certain claims costs to the Compensation Fund for claims prior to 1993 (note 3(c)) 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 year ended December 31 are as follows:

	2010 ($000s)	2009 ($000s)
Assessments	$ 6,190	$ 5,923
Pre-93 claims costs	28	21
Supplementary compensation benefits	392	389
Recoveries and other receipts	358	236
Total revenues and recoveries from the Government of Yukon	$ 6,968	$ 6,569

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

	2010 ($000s)	2009 ($000s)
Due to the Government of Yukon (note 10)	$ (1,730)	$ (2,373)
Due from the Government of Yukon - Recoveries (note 5)	129	69
Due from the Government of Yukon - Assessments	503	504
Net amount due to the Government of Yukon	$ (1,098)	$ (1,800)

Transactions with other related parties are in the normal course of business and are not material.

15. Commitments

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

	Computer software	Professional Services Contracts	Contribution Agreements	Prevention Fund Agreements	Office Leases	Total
2011	27	621	588	94	12	1,342
2012	-	211	221	-	-	432
2013	-	5	-	-	-	5
2014	-	2	-	-	-	2
2015	-	-	-	-	-	-
	$ 27	$ 839	$ 809	$ 94	$ 12	$ 1,781

16. Investment Revenue

	2010 ($000s)	2009 ($000s)
Interest and dividends		
Bonds and short-term investments	$ 2,990	$ 3,086
Equities	1,767	1,755
	4,757	4,841
Gains - net		
Realized gains (losses) in the year	525	(566)
Increase in fair value in the year	5,056	12,128
	10,338	16,403
Investment management fees	(473)	(499)
	$ 9,865	$ 15,904

17. Administration Expenses

	2010 ($000s)	2009 ($000s)
Salaries and benefits	$ 7,194	$ 7,073
Consulting and professional	849	1,037
Amortization - intangible assets	483	460
Buildings	309	292
Automobile and travel	254	265
Computer systems	218	202
Communications	206	181
General administration	178	211
Staffing and recruitment	175	117
Board expenses	167	144
Amortization - property and equipment	161	206
Printing and publications	76	60
Supplies and stationery	47	49
Furniture and equipment	18	13
	$ 10,335	$ 10,310

18. Prevention Expenses

	2010 ($000s)	2009 ($000s)
Contribution Agreements - funded through the Prevention Fund	$ 250	$ 429
Contribution Agreements - funded through Operations	440	486
	$ 690	$ 915

19. 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 reasonably 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.

2010
Year at a Glance

Note		2010	2009
1	Workers covered	20,900	19,400
2	Open Claims	2,904	3,060
1, 3	Claims	1,230	1,277
1, 3	Accepted Claims	1,071	931
1, 3	Lost-time Claims	453	473
1	Lost-time Rate (*per 100 covered workers*)	2.2	2.4
	Permanent Impairment Awards	31	42
1	Fatality Claims Accepted	2	3
	Reviews by the Hearing Officer	40	44
4	Appeals heard by the Appeal Tribunal	17	8
1	Registered employers	3,171	2,922
	Maximum assessable earnings/wage rate	$ 77,610	$ 76,842
1	Assessable payroll (*millions*)	$ 960.3	$ 864.4
6	Assessment revenue (*millions*)	$ 30.9	$ 25.0
	Average estimated premium rate (per $100 of insurable earnings)	$ 2.95	$ 3.00
1, 5	Average collected premium rate (per $100 of insurable earnings)	$ 3.17	$ 2.93
6	Investment revenue (*millions*)	$ 9.87	$ 15.9
6	Investment fund market return	7.6%	13.9%
	Fund balance (*millions*)	$ 149.7	$ 134.8
7	Funded position (per AWCBC - KSM position)	134%	123%

Notes:

Data may include revisions to prior releases.

1 Revised based on most recent data.

2 Due to changes in system operability, pre-2007 figures are not comparable.

3 Figures may include counts of duplicate occurrences.

4 Decisions rendered.

5 Based on rateable revenue only for the assessment year and includes adjustments to previous estimates of payroll and assessment revenue.

6 per Financial Statements

7 per revised 2008 KSM definition.