

COMPENSATION FUND (YUKON)

FINANCIAL STATEMENTS

December 31, 2017

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# Management's Discussion and Analysis

The Management's Discussion and Analysis provides further insight into the financial performance of the Compensation Fund (the Fund) for the year ended December 31, 2017. The audited financial statements and supporting notes are integral to this analysis and should be read in conjunction with it. Unless otherwise indicated, all amounts are expressed in Canadian dollars and have been derived from the Fund's annual financial statements prepared in accordance with International Financial Reporting Standards.

## Forward-looking statements

Any forward-looking statements in this document represent the views of management. Forward-looking information is subject to many risks and uncertainties, and may contain significant assumptions about the future. These statements are presented to help stakeholders understand the Fund's financial position, priorities and anticipated financial performance.

Risk and uncertainties about future assumptions include, but are not limited to, the changing financial markets, the industry mix of the Yukon workforce, the general economy, legislation, accounting standards, appeals and court decisions, and other known or unknown risks. Readers are cautioned not to place undue reliance on forward-looking information as our actual results may differ materially from those expressed or implied.

## Operating results

The 2017 operating surplus (prior to the funding surplus distribution) was higher than the previous year: \$3.1 million versus \$1.7 million in 2016. Higher-than-anticipated revenues were the main contributors to the increased surplus in 2017.

A surplus distribution of \$9.9 million was issued to employers in 2017 due to the Fund's strong financial position. This payout created a net deficit of \$6.9 million. In 2016, the surplus distribution was \$9.6 million, contributing to a net deficit of \$7.9 million.

Total comprehensive loss, which includes the operating loss less the funding policy surplus distributions plus the actuarial loss on post-employment benefits, was \$7.0 million (loss) in 2017 versus \$8.1 million (loss) in 2016.

## Revenues

The Fund's revenue and income totalled \$40.6 million in 2017 versus \$32.0 million in 2016. The increase in overall revenue was directly attributable to an increase in both assessment revenue and net investment income.

Assessment revenue in 2017 was \$22.9 million, up 13.4% from \$20.2 million in 2016. The increase in assessment revenue can be attributed partially to the overall increase in assessable payroll in the Resources and Transportation Sector rate group as a result of the increase in mining-related activity during 2017.

Net investment income in 2017 was \$15.5 million versus \$10.8 million in 2016, an increase of \$4.7 million. In 2017 the Fund earned an overall return of 7.8%, meeting the targeted benchmark return. The overall return for the past five years has been 9.2%. The investment portfolio's asset mix is 46.6% fixed income and 53.4% equities. The Yukon Workers' Compensation Health and Safety Board's disciplined, structured, conservative approach to managing its investment portfolio continues to help the Fund maintain a very strong financial position. 2017 was the ninth consecutive year of positive investment returns.

## Expenses

Total claims expenses increased to \$25.6 million in 2017 from \$18.5 million in 2016. Claims costs were higher in 2017 due mainly to higher than expected costs associated with prior years' injuries.

Administration costs increased to \$11.5 million in 2017 from \$11.3 million in 2016, mainly due to costs associated with legislative amendments and an increase in system development expenses.

## Balance sheet

At the end of each fiscal year, the Board's actuary calculates the benefits liability for all injuries that have occurred to date. This liability represents the actuarial present value of all future benefits and related administration costs. As at December 31, 2017, this liability was \$151.2 million, an increase of approximately 5.6% over the previous year. The increase was created from actuarial adjustments relating to higher than expected costs associated with prior year claims, and a change in the discount rate. The discount rate was adjusted to better reflect the future expected investment returns of the Fund based on the conservative makeup of the portfolio.

The total assets of the Fund increased by \$1.5 million in 2017. The increase in total assets is related mainly to a larger cash balance at year end, primarily related to the performance of the investments and the timing of cash flows around year end.

## Funding position

The funding ratio is calculated by dividing the total assets by the total liabilities. Like a pension plan, the Fund must have adequate assets to ensure that benefits can be provided to workers both now and well into the future. Reserves are necessary to ensure that the Board can minimize rate volatility, protect the Fund from unforeseen catastrophic events, and preserve capital during large downturns in financial markets.

At the end of 2017, the funding ratio was 143%, down from 150% in 2016. According to the Board's funding policy, when the funding ratio is outside the target range

of 121% to 129%, the Fund is considered to be in a surplus position. The current surplus is being reduced in two ways. First, the surplus is being drawn down via a reduction in rates. The average estimated premium rate was set at \$1.87 per \$100 of payroll in 2017 (up from \$1.85 in 2016), which is well below the actual cost of approximately \$2.30 per \$100 of payroll. Second, in late 2017 the Board distributed \$9.9 million of its surplus reserves to employers. These actions continued a multi-year effort to reduce the reserves to their target level. Between 2012 and 2017, approximately \$51 million has been distributed to Yukon employers through lower assessment rates and rebate payments.

## Outlook

As noted in the story pages of this year's annual report, change is inevitable over time. The 2017 operating environment is very different from that of 1917. In fact, today's environment is very different from even five years ago. And it is not only the changes themselves, but the ever-accelerating speed of change that poses challenges for organizations such as ours. But within those challenges lie opportunities. Responding to these challenges and opportunities requires a strong financial position. Fortunately, we are in such a position. All our stakeholders benefit in a number of ways from this position of strength. It allows the Compensation Fund to weather future economic downturns, it helps reduce volatility in the rates paid by employers, it provides adequate resourcing to prevent injuries in the workplace, and it provides assurance that future financial commitments to injured workers and their families will be met.

## 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, including any amounts that must of necessity be based on management's best estimates, experience and judgement. The accompanying financial statements as at December 31, 2017 are prepared in accordance with International Financial Reporting Standards. Other financial information included in the Annual Report is consistent with these financial statements.

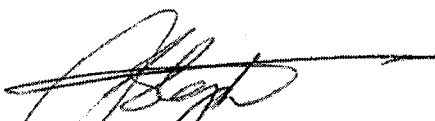
Members of the Board of Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises its responsibilities through the Finance, Investment, and Audit Committee (the "Committee"). The Committee meets 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 of Directors, which has approved these financial statements.

The Auditor General of Canada conducts an independent audit for the purpose of expressing his opinion on the financial statements. He also considers whether the transactions that come to his 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.



Kurt Dieckmann, MBA, CRSP  
President and Chief Executive Officer



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

April 17, 2018



40 Crowther Lane, Suite 300, Knowledge Park  
Fredericton, New Brunswick E3C 0J1

## 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, 2017 (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 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.
2. The actuarial assumptions adopted in computing the benefits liability are adequate and appropriate for the purpose of the valuation. The economic assumptions are consistent with the funding and investment policies of the board.
3. The methods used are appropriate for the purpose of the valuation and are in accordance with accepted actuarial practice for workers' compensation organizations in Canada.
4. The estimate of the actuarial liabilities as at the valuation date is \$151,152,000. This includes provisions for benefits expected to be paid after the valuation date for claims that occurred on or before the valuation date. A provision for future claims arising from long latency occupational diseases is included in this valuation. This liability includes future administrative expenses for all benefits, with the exception of the Annuity benefit. It does not include any accrued liability for claims arising from self-insured accounts.
5. 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 to injured workers was obtained from the board's finance division and is included in item 4 above.
6. The amount of the actuarial liabilities makes appropriate provision for all personal injury compensation obligations and the financial statements fairly present the results of the valuation.
7. This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.
8. 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.

A handwritten signature in black ink, appearing to read "Thane MacKay".

Thane MacKay, F.C.I.A.

*This report has been peer reviewed by Mark Simpson, FCIA.*



Office of the  
Auditor General  
of Canada

Bureau du  
vérificateur général  
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 statement of financial position as at 31 December 2017, and the statement of operations and comprehensive income, statement of changes in funded position (equity) and statement of cash flows 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 International Financial Reporting Standards, 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.

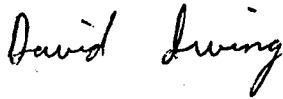
*Opinion*

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Compensation Fund as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other Legal and Regulatory Requirements**

As required by the *Workers' Compensation Act*, I report that, in my opinion, the accounting principles in International Financial Reporting Standards 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.



David Irving, CPA, CA  
Principal  
for the Auditor General of Canada

17 April 2018  
Edmonton, Canada



**Compensation Fund**  
**Statement of Financial Position**  
**As at December 31**  
(In Canadian Dollars)

	Note	2017 (\$000s)	2016 (\$000s)
<b>ASSETS</b>			
Cash		\$ 2,232	\$ 178
Accounts receivable	6	1,932	1,934
Prepaid expenses		203	250
Investments	7	209,439	209,502
Property and equipment	8	9,217	9,430
Intangible assets	9	3,011	3,289
<b>Total assets</b>		<b>\$ 226,034</b>	<b>\$ 224,583</b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	10	4,062	3,483
Surplus distributions payable	14	215	117
Deferred portion of government grant	11	146	183
Benefits liability	12	151,152	143,109
Employee benefits	13	2,722	2,992
<b>Total liabilities</b>		<b>158,297</b>	<b>149,884</b>
<b>FUNDED POSITION (EQUITY)</b>			
Reserves	14	67,737	74,699
<b>Total equity</b>		<b>67,737</b>	<b>74,699</b>
<b>Total liabilities and equity</b>		<b>\$ 226,034</b>	<b>\$ 224,583</b>

Commitments and Contingencies (notes 16 and 18)

*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**

(In Canadian Dollars)

	<b>Note</b>	<b>2017</b> (\$000s)	<b>2016</b> (\$000s)
<b>Revenue and Income</b>			
Assessment revenue		\$ 22,912	\$ 20,210
Net investment income	7	15,521	10,761
Recoveries and other receipts		<u>2,135</u>	<u>1,030</u>
		<u>40,568</u>	<u>32,001</u>
<b>Expenses</b>			
Claims expenses	12	25,600	18,530
Administration	17		
General and Administration		8,344	8,214
Occupational Health and Safety		2,223	2,321
Workers' Advocate		454	492
Act Amendments		153	-
Yukon Chamber		151	142
Appeal Tribunal		130	114
Prevention		<u>450</u>	<u>455</u>
		<u>37,505</u>	<u>30,268</u>
<b>Operating surplus</b>		<u>3,063</u>	<u>1,733</u>
Funding policy surplus distributions	14	<u>(9,945)</u>	<u>(9,618)</u>
<b>Net deficit</b>		(6,882)	(7,885)
<b>Other comprehensive loss</b>			
All items presented in other comprehensive loss will not be reclassified to operating surplus in subsequent periods:			
Actuarial loss on post-employment benefits	13	<u>(80)</u>	<u>(204)</u>
<b>Total comprehensive loss</b>		<u>\$ (6,962)</u>	<u>\$ (8,089)</u>

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

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

(In Canadian Dollars)

	Stabilization Reserve (\$000s)	Adverse Events Reserve (\$000s)	Total (\$000s)
<b>Balance at January 1, 2016</b>	<b>\$ 60,208</b>	<b>\$ 22,580</b>	<b>\$ 82,788</b>
Net deficit for 2016	(7,885)	-	(7,885)
Other comprehensive loss	(204)	-	(204)
Total comprehensive loss for 2016	(8,089)	-	(8,089)
Transfer to / from Adverse Events Reserve	(215)	215	-
<b>Balance at December 31, 2016</b>	<b>\$ 51,904</b>	<b>\$ 22,795</b>	<b>\$ 74,699</b>
Net deficit for 2017	(6,882)	-	(6,882)
Other comprehensive loss	(80)	-	(80)
Total comprehensive loss for 2017	(6,962)	-	(6,962)
Transfer to / from Adverse Events Reserve	(880)	880	-
<b>Balance at December 31, 2017</b>	<b>\$ 44,062</b>	<b>\$ 23,675</b>	<b>\$ 67,737</b>

Capital Management and Reserves (note 14)

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

**Compensation Fund**  
**Statement of Cash Flows**  
**For the year ended December 31**  
(In Canadian Dollars)

	<b>2017</b>	<b>2016</b>
	(\$000s)	(\$000s)
<b>Operating activities</b>		
Cash received from:		
Employers, for assessments	\$ 22,557	\$ 19,922
Investment revenue - interest	2,793	2,897
Investment revenue - dividends	2,888	3,210
Recoveries and other receipts	2,092	960
	<u>30,330</u>	<u>26,989</u>
Cash paid:		
To employers, for surplus distributions	(9,847)	(9,873)
For claims	(17,242)	(16,675)
To employees and suppliers, for administration and prevention	(11,051)	(11,386)
	<u>(38,140)</u>	<u>(37,934)</u>
Total cash used by operating activities	<u>(7,810)</u>	<u>(10,945)</u>
<b>Investing activities</b>		
Net sale of investments	10,622	14,705
Purchases of property and equipment	(301)	(671)
Purchases of intangible assets	(415)	(257)
Total cash provided (used) by investing activities	<u>9,906</u>	<u>13,777</u>
Foreign exchange loss on cash held in foreign currency	(42)	-
<b>Increase in cash</b>	<b>2,054</b>	<b>2,832</b>
Cash (bank overdraft), beginning of year	178	(2,654)
<b>Cash, end of year</b>	<b>\$ 2,232</b>	<b>\$ 178</b>

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

## Compensation Fund

Notes to the Financial Statements

December 31, 2017

(In Canadian Dollars)

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### 1. Reporting Entity

The Compensation Fund (the "Fund") was established by the *Workers' Compensation Act* of Yukon (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 Board is exempt from income tax and the Goods and Services Tax.

The Fund, as administered by the Board, provides compensation for injury or death by accidents 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.

Since 1992, the Board has also been responsible for the administration of the *Occupational Health and Safety Act* and regulations to advance strategies for preventing workplace injuries in the territory.

The Board, a territorial entity, is domiciled in Canada and has its office at 401 Strickland Street, Whitehorse, Yukon, Canada.

### 2. Statement of Compliance and Basis of Preparation

These financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS").

The Board of Directors approved and authorized for issue the 2017 financial statements on April 17, 2018.

#### Basis of Measurement

These financial statements have been prepared on a historical cost basis, except for investments classified as held-for-trading that are measured at fair value. The Fund's functional currency is the Canadian dollar, which is the currency of the primary economic environment in which the Fund operates, which is also the presentation currency of the financial statements.

All financial information is presented in Canadian dollars and tabular financial information has been rounded to the nearest thousand dollars, unless otherwise stated.

#### Critical Accounting Estimates and Judgements

The Board makes estimates and judgements in respect of certain key assets and liabilities of the Fund. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

**Compensation Fund**  
Notes to the Financial Statements  
December 31, 2017  
(In Canadian Dollars)

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The significant areas of estimation uncertainties which have a significant risk of resulting in a material adjustment within the next financial year are the following:

- Note 7 Investments – Valuation of financial instruments
- Note 12 Benefits liability – Determination of discount rates and other assumptions
- Note 12 Benefits liability – Determination of latent occupational disease provision
- Note 13 Employee benefits – Determination of discount rates and other assumptions

The major areas of judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are the following:

- Note 7 Investments – Classification of financial instruments
- Note 8 Property and equipment – The degree of componentization
- Note 9 Intangible assets – The determination of development costs eligible for capitalization

### **3. Application of New and Revised IFRS**

#### **(a) Amendments to IFRS effective for the current year**

The Board has applied amendments to IFRS that are mandatorily effective for the current year.

##### **Amendments to IAS 7 *Statement of Cash Flows***

In January 2016, the IASB issued amendments to IAS 7 to require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. These amendments are effective for annual periods beginning on or after January 1, 2017. The adoption of these amendments had no impact on the Fund's financial statements.

#### **(b) New and revised IFRS issued but not yet effective**

##### **Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts***

In September 2016, the IASB issued amendments to IFRS 4 *Insurance Contracts* which permits insurers that meet specified criteria to apply a temporary exemption from IFRS 9, for annual periods beginning on or after January 1, 2018. The Board is eligible for the temporary exemption, and will be applying this amendment for annual periods beginning January 1, 2018 until the temporary exemption expires for annual reporting periods after January 1, 2021.

##### **IFRS 9 *Financial Instruments***

In July 2014, the IASB issued the final version of IFRS 9 to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss' impairment model. IFRS 9 also includes a substantially reformed approach to hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. The Board is eligible and will be using the temporary exemption

**Compensation Fund**  
Notes to the Financial Statements  
December 31, 2017

(In Canadian Dollars)

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allowed for based on amendments to IFRS 4 issued in September 2016 which delays implementation of IFRS 9 to 2021.

**IFRS 16 Leases**

The IASB issued a new standard on leases in January 2016. The scope of the new standard includes leases of all assets, with certain exemptions. A lease would be defined as a contract that conveys the right to use an asset for a period of time in exchange for consideration. IFRS 16 requires all leases to be reported on the lessee's statement of financial position. There are also changes in accounting over the life of the lease. In particular, the lessee will now recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. Lessors' accounting treatment remains similar to current practice. They continue to classify leases as finance or operating leases. The standard is effective for annual periods beginning on or after January 1, 2019. The Board is currently evaluating the impact the standard is expected to have on the Fund's financial statements and therefore the extent of the impact of the adoption of this standard is unknown.

**IFRS 17 Insurance Contracts**

IFRS 17 *Insurance Contracts* was issued in May 2017 and is effective for years beginning on or after January 1, 2021, to be applied retrospectively. If full retrospective application is impractical, the modified retrospective or fair value methods may be used. IFRS 17 will replace IFRS 4 *Insurance Contracts* and is expected to change the way insurance contract liabilities are recognized and measured. It will also change the presentation and disclosures of the Fund's Financial Statements. The Board is assessing the impact of this standard and expects that it could potentially have a significant impact on the Fund's Financial Statements.

**4. Significant Accounting Policies**

The following is a summary of the significant accounting policies:

**(a) Cash**

For the purposes of the Statement of Financial Position and Statement of Cash Flows, cash includes cash on hand and bank balances net of any bank overdrafts. Foreign currency transactions incurred within operating activities are translated based on the exchange rate at the time of the transaction. Any gains or losses incurred as result of translation are recorded in the Statement of Operations and Comprehensive Income. The cash balance remaining in the account at year end is translated at the exchange rate in effect as of December 31, 2017.

Cash and short-term investments held by custodians for investment purposes are not available for general use and are included in investments.

**(b) Assessments and recoveries and other receipts**

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

**Compensation Fund**  
Notes to the Financial Statements  
December 31, 2017

(In Canadian Dollars)

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receivable and payable are adjusted based on the difference between estimated and actual payrolls.

The Government of Yukon pays certain claims costs to the Compensation Fund for claims prior to 1993 and 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. The Government also reimburses the Compensation Fund for all claims costs associated with those injured workers, who are designated as workers employed by the Government under section 6 of the Act. These amounts are recorded in recoveries and other receipts in the year in which the related expenses are incurred (note 15(a)).

**(c) Recoveries from third parties**

Since July 1, 2008, 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 worker's injury that arose out of a work-related injury. If settled, or as a result of a Court decision, the legal costs and costs associated with the claim create the settlement. Out of the settlement are paid the legal costs, and legal disbursements, and all past, present and future costs. Any funds remaining will be paid to the worker. The amount recovered for past, present and future costs is used to pay for future claims benefits, which were previously expensed in accordance with actuarial calculations, and which were previously incorporated in the benefits liability.

Recoveries from third parties are recognized when their receipt is virtually certain and the amount can be reliably measured. They are recorded as a recovery in the year they are recognized. No provision is made in the benefits liability for possible future third party recoveries because of their contingent nature.

**(d) Financial instruments**

**Investments**

Investments are classified as held-for-trading because they are acquired for the purpose of selling or repurchasing in the near term and are measured at fair value through profit or loss. The fair value of publicly traded investments is the quoted market price which approximates the bid price at the end of the reporting period. 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.

Net investment income is comprised of realized gains and losses earned in the period arising on the sale of investments; unrealized gains and losses arising from fluctuations in fair value in the period; and dividends and interest earned in the period; net of investment management fees and transaction costs.



## **Compensation Fund**

### Notes to the Financial Statements

### December 31, 2017

(In Canadian Dollars)

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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 net investment income in the period in which they arise.

The Board does not enter into any financial derivative instruments as part of managing the Fund's investment portfolio.

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

Accounts receivable are classified as loans and receivables. Bank overdraft, accounts payable and accrued liabilities, and surplus distributions payable 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, bank overdraft, accounts payable and accrued liabilities, and surplus distributions payable, their carrying values approximate their fair values, which are classified as Level 2 in the fair value hierarchy.

#### **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. The Board's policy is to recognize transfers into or out of the fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no such transfers between levels in 2017 (2016 – No transfers).

#### **Impairment of financial assets**

The carrying amount of accounts receivable is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. The Board assesses at each reporting date whether a financial asset or group of financial assets is impaired. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

#### **Derecognition of financial assets and liabilities**

A financial asset is derecognized when the contractual right to the cash flows from the asset expires or if the Board transfers the financial asset and substantially all risk and rewards of ownership to another entity.

**Compensation Fund**  
**Notes to the Financial Statements**  
**December 31, 2017**

(In Canadian Dollars)

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Financial liabilities are derecognized when the contractual obligations are discharged, cancelled, or expire.

**(e) Property and equipment**

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

Buildings and fixtures	10 – 50 years
Furniture and equipment	5 – 15 years
Computer equipment	5 years

Where an item of property and equipment is comprised of significant components with different useful lives, the components are accounted for separately.

The estimated useful life, residual value and depreciation method is reviewed at each year end and any change in estimate is made on a prospective basis.

**(f) Intangible assets**

Intangible assets are comprised of purchased software and internally developed software systems.

Research costs are expensed as incurred. Development costs of internally developed software systems are capitalized when the system is technically feasible, resources are available, costs can be measured reliably, management intends to use the asset and future economic benefits are probable. The asset is derecognized when it no longer meets these criteria. 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 is available for use, development costs capitalization ceases and the costs are transferred to the related asset category and amortized.

Intangible assets are recorded at cost less accumulated amortization and accumulated impairment. 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 – 19 years
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The estimated useful life and amortization period is reviewed at each year end and any change in estimate is made on a prospective basis.

**(g) Impairment of non-financial assets**

IAS 36 *Impairment of Assets* requires an entity to test assets for impairment if indicators of impairment exist. The impairment review must be conducted for an individual asset, an asset group, or the cash-generating unit level, which is the smallest identifiable group of assets that generates cash inflows independent of cash inflows from other assets or groups of assets.

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Based on an analysis of cash flows, the Board has established that the appropriate cash generating unit for impairment review is the entity. The Board has statutory power under the Act to increase premiums and/or charge a premium surcharge to ensure full funding into the foreseeable future and therefore, the likelihood of impairment at the entity level is remote.

Individual assets that may have experienced impairment due to loss, damage, obsolescence or curtailed service potential will be reviewed and the estimated useful life, depreciation method and residual value adjusted.

The Board assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Board estimates the asset's recoverable amount. As at December 31, 2017, management conducted an impairment review at the entity level, which confirmed that there were no indicators of impairment—changes in the legislative, economic or business environment—that would have a material impact on the Board's ability to generate future economic benefits from its operating (non-financial) assets.

**(h) Government grants**

There are two types of government grants which include government grants related to expenses and government grants related to assets. Government grants related to expenses are recognized as income when there is reasonable assurance that the conditions attached to the grant will be complied with and the grant will be received. When the grant relates to an asset, it is recognized as deferred income and is released into income in equal amounts over the expected useful life of the related asset.

In 2005, the Government of Yukon approved the reinstatement of ongoing funding for the Mine Safety Program (the "Program") through an annual grant to the Fund. 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 grant is accounted for as income in the period in which the related expenses are incurred (note 11).

In 2011, the Board signed an agreement with the Government of Yukon which provides the Fund with funding for the purpose of upgrading mine safety equipment. The grant is accounted for as deferred income and released into income over the expected useful life of the equipment (note 11).

**(i) 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. A provision has been made for claims related to known latent occupational diseases which may have

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occurred in the current or previous years, but which may not be recognized and reported for a number of years due to the extended latency period of such diseases. Due to the nature of the estimated liability for long latent occupational diseases and the extent of related historical claims information available, this liability is more uncertain by its nature than other benefits liabilities (note 12).

The benefits liability is comprised of four liabilities—medical aid, compensation, pension, and annuity:

- Medical aid includes benefits for medical aid, emergency transportation, traditional aboriginal healing, death and funeral expenses, lump sum payments for permanent impairment, and rehabilitation assistance.
- Compensation includes income amounts that are paid to all eligible workers who suffer a work-related injury, incapacity or occupational disease that has resulted in a loss of earnings.
- 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 when a worker becomes entitled to apply for Old Age Security benefits.

Many assumptions are required to calculate the benefits liability, including estimates of future inflation, interest rates, and mortality rates. The benefits liability is determined annually by an independent actuarial valuation. The Actuarial Statement of Opinion on the adequacy and appropriateness of the benefits liability is attached to these financial statements.

A portion of administration and general expenses is allocated as claims management costs to the current year's claims and the prior years' claims. The amount allocated to claims is reviewed by the independent actuary for reasonableness as part of the annual actuarial valuation of the benefits liability.

**(j) Employee benefits**

**Short-term employee benefits**

Employee benefits that are expected to be settled within twelve months of the reporting date are measured on an undiscounted basis. These benefits include annual vacation leave earned but not yet used.

**Other long-term employee benefits**

Benefits that are expected to be settled beyond twelve months are determined based on an actuarial valuation as the best estimate of future cash flows discounted to present value with actuarial gains and losses recognized in profit and loss as incurred. These

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benefits include long service vacation leave, sick leave, and special leave benefits earned but not used.

**Post employment benefits****(i) Retirement and severance benefits**

Retirement or severance benefits are available to employees who have completed five years of service with the Board. Payments are made upon retirement or termination, with benefits increasing with additional length of service. The benefit obligation is determined based on an actuarial valuation using estimates of future inflation and interest rates. Actuarial gains and losses are recognized in other comprehensive income as incurred. The obligation is calculated using the projected unit credit method prorated on service.

**(ii) Public Service Pension Plan**

Substantially all of the employees of the Board are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Fund to cover current service cost. Pursuant to legislation currently in place, the Fund has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Fund.

**(k) Leases**

Leases, which do not transfer substantially all the risks and benefits of ownership of the asset to the Fund, are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

The Board has entered into operating leases for office space, rental accommodation for travel, and vehicles. The leases have an average life of 1 year (2016 – 1 year).

**(l) Funding policy surplus distributions**

The Board may issue surplus distributions in accordance with its Funding Policy. These are recorded as an expense in the period in which they are approved by the Board of Directors and issued. Surplus distributions that are approved but not issued are recorded as payable when the amount of such distributions can be reliably estimated and when it is probable a payment will be issued in the future to settle the obligation.

**5. 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 Board's management is responsible for monitoring performance and recommending changes to the Investment Policy. The Board of Directors is ultimately responsible for

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governance and strategic direction of the investment portfolio through its review and approval of the Investment Policy and selection of investment managers. The investment managers' compliance with this Investment Policy is monitored on a regular basis. Quarterly, independent consultants benchmark the performance of the Fund's investment managers and advise on the appropriateness and effectiveness of the Fund's 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. There were no changes to these risks or the Board's objectives, policies and process for managing them during the year ended December 31, 2017.

**Credit risk**

Credit risk on financial instruments arises from the possibility that the issuer of a fixed-term instrument fails to meet its obligations. Excess cash is held on deposit with the Government of Yukon's banker. Short-term deposits with this bank are rated as R-1 (high). To manage this risk, the Board, as prescribed in the Investment Policy, has determined that cash and cash equivalents held in the investment portfolio and 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					31-Dec-17	31-Dec-16
	AAA	AA	A	BBB	(\$000's)	(\$000's)
Fixed Income Securities	\$ 35,409	\$ 15,488	\$ 27,902	\$ 8,132	\$ 86,931	\$ 87,579

The Fund's exposure to credit risk associated with its accounts receivable is the risk that an employer or a cost recovery customer (the "customer") will be unable to pay amounts due to the Fund. The Fund's maximum exposure to credit risk associated with its accounts receivable is \$1,932,000 (2016 - \$1,934,000). Allowances for doubtful accounts are provided for potential losses that have been incurred at the reporting date. The amounts disclosed on the Statement of Financial Position are net of these allowances for bad debts. Accounts 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. At December 31, 2017, there were no accounts receivable that were past due but not impaired. The Board takes into consideration the customer's payment history, their credit worthiness and the current economic environment in which the customer operates to assess impairment. The Board recognizes a bad debt provision when management considers that the expected recovery is less than the carrying amount receivable.

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The Board believes that the credit risk of accounts 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, 2017, approximately 92% (2016 – 84%) of accounts receivable were 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.

**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 Fund'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 Fund's accounts payable and accrued liabilities had a carrying value of \$4,062,000 as at December 31, 2017 (2016 – \$3,483,000) and were all payable within a year.

The Fund's surplus distributions payable had a carrying value of \$215,000 as at December 31, 2017 (2016 - \$117,000) and are expected to be paid in 2018 (note 14).

Liquidity risk related to the Benefits liability is included in note 12 (f).

Management estimates that approximately \$9 million will be withdrawn from the investment fund during 2018 to fund the difference between operating revenues and expenses. The amount withdrawn will be a combination of maturing fixed income securities, sales of equities, and interest and dividend income earned.

**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 (note 7).

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The table below presents the Fund's investment targets and actual asset mix at fair value:

	Target		Actual	
	Minimum	Maximum	31-Dec-17	31-Dec-16
<b>Equities</b>				
Canadian	0%	25%	16.6%	18.1%
United States	0%	25%	17.3%	18.6%
International	0%	25%	19.5%	19.2%
<b>Fixed Income</b>				
Short-term investments	0%	10%	5.1%	2.3%
Bonds	35%	85%	41.5%	41.8%
			<u>100.0%</u>	<u>100.0%</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 on operating results and equity:

Percentage decrease in fair value	31-Dec-17 (\$000's)		31-Dec-16 (\$000's)	
	-10%	-20%	-10%	-20%
<b>Equities</b>				
Canadian	\$ (3,482)	\$ (6,963)	\$ (3,782)	\$ (7,564)
United States	(3,629)	(7,259)	(3,899)	(7,799)
International	(4,081)	(8,163)	(4,024)	(8,048)
Total impact on operating results and equity	<u>\$ (11,192)</u>	<u>\$ (22,385)</u>	<u>\$ (11,705)</u>	<u>\$ (23,411)</u>

***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 basis point ("bp")<sup>1</sup> adverse change in the nominal interest rate on the fair value of the bond portfolio on operating results and equity:

Positive bp change in nominal interest rate	31-Dec-17 (\$000's)		31-Dec-16 (\$000's)	
	+50bp	+100bp	+50bp	+100bp
Bonds	\$ (3,079)	\$ (6,158)	\$ (3,142)	\$ (6,283)
Total impact on operating results and equity	<u>\$ (3,079)</u>	<u>\$ (6,158)</u>	<u>\$ (3,142)</u>	<u>\$ (6,283)</u>

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



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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:

	<b>Remaining term to maturity <sup>(1)</sup></b>				<b>31-Dec-17</b>	<b>31-Dec-16</b>
	<b>&lt; 1 year</b>	<b>1 - 5 years</b>	<b>5 - 10 years</b>	<b>&gt; 10 years</b>	<b>(\$000's)</b>	<b>(\$000's)</b>
					<b>Total</b>	<b>Total</b>
Bonds	\$ 2,549	\$ 34,603	\$ 26,953	\$ 22,826	\$ 86,931	\$ 87,579
Average effective yield	1.75%	2.31%	2.70%	2.97%	2.59%	2.45%

(1) Maturity is defined as the earliest a bond can be redeemed without penalty by the bond issuer.

The Fund is also exposed to the risk that interest rate movements may materially impact the value of its benefits liability (note 12(e)).

**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 managers. The Board does not undertake long-term hedging strategies for the currency risk of foreign investments. The Fund's most significant exposure is to the US Dollar, Euro, British Pound, Japanese Yen, and the Swiss Franc. At December 31, the Fund held foreign currency denominated holdings, at fair value as follows:

<b>Currency</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
	<b>(\$000's)</b>	<b>(\$000's)</b>
US Dollar	\$ 39,100	\$ 41,900
Euro	\$ 15,200	\$ 16,600
Pound	\$ 8,000	\$ 6,800
Yen	\$ 5,500	\$ 4,700
Swiss Franc	\$ 3,900	\$ 3,700

The following table presents the effect of a ten percent appreciation in the Canadian dollar as compared to the US Dollar, Euro, British Pound, Japanese Yen, and the Swiss Franc on operating results and equity:

<b>Currency</b>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
	<b>(\$000's)</b>	<b>(\$000's)</b>
US Dollar	\$ (3,556)	\$ (3,813)
Euro	\$ (1,381)	\$ (1,506)
Pound	\$ (728)	\$ (622)
Yen	\$ (503)	\$ (425)
Swiss Franc	\$ (354)	\$ (341)

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**6. Accounts Receivable**

	<b>31-Dec-17</b>	<b>31-Dec-16</b>
	(\$000s)	(\$000s)
<b>Assessments</b>		
Assessed and due from employers	\$ 1,895	\$ 1,694
Allowance for doubtful accounts	(93)	(250)
	<u>\$ 1,801</u>	<u>\$ 1,444</u>
<b>Other</b>		
Other receivables and recoveries	\$ 161	\$ 513
Allowance for doubtful accounts	(31)	(23)
	<u>\$ 130</u>	<u>\$ 490</u>
	<u>\$ 1,932</u>	<u>\$ 1,934</u>

Included in other receivables and recoveries are amounts due from the Government of Yukon, which are disclosed in note 15.

**Reconciliation of allowance for doubtful accounts**

	<b>31-Dec-17</b>	<b>31-Dec-16</b>
	(\$000's)	(\$000's)
Balance, beginning of year	\$ 273	\$ 254
Accounts written off	(217)	(57)
Recoveries and other adjustments	(21)	(9)
Current year provision	89	85
Balance, end of year	<u>\$ 124</u>	<u>\$ 273</u>

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**7. Investments**

The Board of Directors has established an Investment Policy for the management of the investment process, utilizing external investment managers. The investment managers' compliance with this Investment Policy is monitored on a regular basis.

	<b>31-Dec-17</b>	<b>31-Dec-16</b>
	(\$000s)	(\$000s)
	<u>Fair Value</u>	<u>Fair Value</u>
<b>Fixed-term securities</b>		
Federal bonds	\$ 24,709	\$ 18,611
Provincial bonds	13,383	13,483
Corporate bonds	48,839	55,485
	<u>86,931</u>	<u>87,579</u>
<b>Equities</b>		
Canadian	34,817	37,819
United States	36,293	38,993
International	40,814	40,240
	<u>111,924</u>	<u>117,052</u>
<b>Other investments</b>		
Cash on account	392	133
Short-term investments	9,709	4,223
Accrued interest receivable	570	599
	<u>10,671</u>	<u>4,955</u>
Investments, sub-total	209,526	209,586
Management fee accrual	(87)	(84)
	<u>\$ 209,439</u>	<u>\$ 209,502</u>

Net investment income for the year ended December 31 consisted of the following:

	<b>2017</b>	<b>2016</b>
	(\$000s)	(\$000s)
Interest	\$ 2,772	\$ 2,900
Dividends	2,888	3,210
Realized gains in the year	12,091	6,965
Unrealized loss in fair value in the year	(1,508)	(1,553)
Investment management fees	(722)	(761)
	<u>\$ 15,521</u>	<u>\$ 10,761</u>

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**Fair Value Hierarchy**

The Fund's investments are categorized into the fair value hierarchy based on type, frequency and visibility of pricing, source of pricing and liquidity. There are three levels of classification:

A Level 1 classification reflects public daily market or quote pricing with a good volume level.

A Level 2 classification is used when pricing is:

- a) model or matrix based (using observable inputs and/or market information);
- b) based on closely-related securities;
- c) derived pricing (when no public quote exists); or
- d) from a broker quote on less active markets.

A Level 3 security would have no public pricing and poor to non-existent liquidity.

As at December 31, 2017, the Fund held the following financial instruments measured at fair value:

	<b>Level 1</b> (\$000s)	<b>Level 2</b> (\$000s)	<b>Level 3</b> (\$000s)	<b>Total</b> (\$000s)
Cash and Cash Equivalents	\$ 10,584	\$ -	\$ -	\$ 10,584
Bonds	12,217	74,714	-	86,931
Equities	52,985	-	-	52,985
Pooled Funds	-	58,939	-	58,939
Total Investments	<u>\$ 75,786</u>	<u>\$ 133,653</u>	<u>\$ -</u>	<u>\$ 209,439</u>

As at December 31, 2016, the Fund held the following financial instruments measured at fair value:

	<b>Level 1</b> (\$000s)	<b>Level 2</b> (\$000s)	<b>Level 3</b> (\$000s)	<b>Total</b> (\$000s)
Cash and Cash Equivalents	\$ 4,871	\$ -	\$ -	\$ 4,871
Bonds	5,973	81,606	-	87,579
Equities	58,102	-	-	58,102
Pooled Funds	-	58,950	-	58,950
Total Investments	<u>\$ 68,946</u>	<u>\$ 140,556</u>	<u>\$ -</u>	<u>\$ 209,502</u>

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**8. Property and Equipment**

	Land (\$000s)	Buildings and Fixtures (\$000s)	Furniture and Equipment (\$000s)	Computer and Equipment (\$000s)	Assets under construction (\$000s)	Total (\$000s)
<b>Cost</b>						
At January 1, 2016	\$ 1,045	\$ 9,496	\$ 1,372	\$ 729	\$ -	\$ 12,642
Additions	-	266	172	104	39	581
Disposals	-	-	(12)	(61)	-	(73)
Transfers	-	144	(144)	-	-	-
At December 31, 2016	\$ 1,045	\$ 9,906	\$ 1,388	\$ 772	\$ 39	\$ 13,150
<b>Depreciation and impairment</b>						
At January 1, 2016	\$ -	\$ 2,147	\$ 717	\$ 517	\$ -	\$ 3,381
Depreciation	-	203	111	98	-	412
Disposals	-	-	(12)	(61)	-	(73)
Impairment	-	-	-	-	-	-
At December 31, 2016	\$ -	\$ 2,350	\$ 816	\$ 554	\$ -	\$ 3,720
<b>Net book value</b>						
At December 31, 2016	\$ 1,045	\$ 7,556	\$ 572	\$ 218	\$ 39	\$ 9,430
<b>Cost</b>						
At January 1, 2017	\$ 1,045	\$ 9,906	\$ 1,388	\$ 772	\$ 39	\$ 13,150
Additions	-	-	133	104	79	316
Disposals	-	(24)	(46)	(58)	-	(128)
Transfers	-	102	-	-	(102)	-
At December 31, 2017	\$ 1,045	\$ 9,984	\$ 1,475	\$ 818	\$ 16	\$ 13,338
<b>Depreciation and impairment</b>						
At January 1, 2017	\$ -	\$ 2,350	\$ 816	\$ 554	\$ -	\$ 3,720
Depreciation	-	299	111	107	-	517
Disposals	-	(12)	(46)	(58)	-	(116)
Impairment	-	-	-	-	-	-
At December 31, 2017	\$ -	\$ 2,637	\$ 881	\$ 603	\$ -	\$ 4,121
<b>Net book value</b>						
At December 31, 2017	\$ 1,045	\$ 7,347	\$ 594	\$ 215	\$ 16	\$ 9,217

During the year ended December 31, 2017 the Board reviewed all capital assets and using judgement determined if any changes in useful life were required. This review resulted in changes to the expected useful life of certain items included in buildings and fixtures. The effect of these changes on depreciation expenses in current and future periods is as follows:

	2017 (\$000s)	2018 (\$000s)	2019 (\$000s)	2020 (\$000s)	2021 (\$000s)
Increase in depreciation expense	67	67	2	2	2

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**9. Intangible Assets**

	Internal Software Development Costs <sup>(1)</sup> (\$000s)	Software Systems Under Development (\$000s)	Software Costs (\$000s)	Total (\$000s)
<b>Cost</b>				
At January 1, 2016	\$ 8,731	\$ -	\$ 1,017	\$ 9,748
Additions	253	29	16	298
Disposals	(206)	-	(37)	(243)
At December 31, 2016	<u>\$ 8,778</u>	<u>\$ 29</u>	<u>\$ 996</u>	<u>\$ 9,803</u>
<b>Amortization and impairment</b>				
At January 1, 2016	\$ 5,286	\$ -	\$ 755	\$ 6,041
Amortization	619	-	56	675
Disposals	(165)	-	(37)	(202)
Impairment	-	-	-	-
At December 31, 2016	<u>\$ 5,740</u>	<u>\$ -</u>	<u>\$ 774</u>	<u>\$ 6,514</u>
<b>Net book value</b>				
At December 31, 2016	<u>\$ 3,038</u>	<u>\$ 29</u>	<u>\$ 222</u>	<u>\$ 3,289</u>
<b>Cost</b>				
At January 1, 2017	\$ 8,778	\$ 29	\$ 996	\$ 9,803
Additions	254	108	49	411
Disposals	-	-	(49)	(49)
Transfer systems to production	22	(29)	7	-
At December 31, 2017	<u>\$ 9,054</u>	<u>\$ 108</u>	<u>\$ 1,003</u>	<u>\$ 10,165</u>
<b>Amortization and impairment</b>				
At January 1, 2017	\$ 5,740	\$ -	\$ 774	\$ 6,514
Amortization	629	-	60	689
Disposals	-	-	(49)	(49)
Impairment	-	-	-	-
At December 31, 2017	<u>\$ 6,369</u>	<u>\$ -</u>	<u>\$ 785</u>	<u>\$ 7,154</u>
<b>Net book value</b>				
At December 31, 2017	<u>\$ 2,685</u>	<u>\$ 108</u>	<u>\$ 218</u>	<u>\$ 3,011</u>

(1) Included in internal software development costs is the claims management system which has a net book value of \$1,276,000 (2016 – \$1,531,000) and a remaining amortization period of 5 years.

System research and analysis costs expensed in 2017 were \$150,000 (2016 – \$23,000).

During the year ended December 31, 2017 the Board reviewed all intangible assets and using judgement determined if any changes in useful life were required. This review resulted in changes to the expected useful life of certain items included in internal software development costs. The effect of these changes on amortization expenses in current and future periods is as follows:

	2017 (\$000s)	2018 (\$000s)	2019 (\$000s)	2020 (\$000s)	2021 (\$000s)
Increase/(decrease) in amortization expense	<u>(71)</u>	<u>(71)</u>	<u>35</u>	<u>35</u>	<u>35</u>

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**10. Accounts Payable and Accrued Liabilities**

	<b>31-Dec-17</b>	<b>31-Dec-16</b>
	(\$000s)	(\$000s)
<b>Payable</b>		
Assessments refundable	\$ 1,753	\$ 1,676
Other payables and accrued liabilities	2,309	1,807
	<u>\$ 4,062</u>	<u>\$ 3,483</u>

Included in other payables and accrued liabilities are amounts due to the Government of Yukon, which are disclosed in note 15.

**11. Government Grants**

In 2017, the Fund received \$330,000 for the Mine Safety Program Grant (2016 – \$330,000). This was accounted for as income in the period.

The Fund did not receive any funds in 2017 for the purpose of upgrading mine safety equipment (2016 – nil). The deferred portion of the government grant as at December 31, 2017 was \$146,000 (2016 – \$183,000) and \$37,000 (2016 – \$42,000) was expensed and released into income during the year.

There are no unfulfilled conditions or contingencies attached to these grants.

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**12. Benefits Liability**

	2017 (\$000s)					
	Medical Aid	Compensation	Pension	Annuity	Occupational Disease Provision	Total
Balance, beginning of year	\$ 23,651	\$ 67,819	\$ 31,115	\$ 7,811	\$ 12,713	\$ 143,109
Add claims costs incurred:						
Current year injuries	6,881	7,982	-	-	-	14,863
Prior years' injuries	3,349	3,572	3,101	-	-	10,022
Latent occupational disease provision	-	-	-	-	715	715
	<u>10,230</u>	<u>11,554</u>	<u>3,101</u>	<u>-</u>	<u>715</u>	<u>25,600</u>
Less claims payments made:						
Current year injuries	3,006	1,335	-	-	-	4,341
Claims management	451	200	-	-	-	651
Prior years' injuries	3,018	6,412	2,490	(970)	-	10,950
Claims management	453	788	374	-	-	1,615
	<u>6,928</u>	<u>8,735</u>	<u>2,864</u>	<u>(970)</u>	<u>-</u>	<u>17,557</u>
Balance, end of year	<u>\$ 26,953</u>	<u>\$ 70,638</u>	<u>\$ 31,352</u>	<u>\$ 8,781</u>	<u>\$ 13,428</u>	<u>\$ 151,152</u>

	2016 (\$000s)					
	Medical Aid	Compensation	Pension	Annuity	Occupational Disease Provision	Total
Balance, beginning of year	\$ 22,727	\$ 68,905	\$ 29,269	\$ 7,535	\$ 12,522	\$ 140,958
Add claims costs incurred:						
Current year injuries	5,725	7,459	-	-	-	13,184
Prior years' injuries	922	(299)	4,532	-	-	5,155
Latent occupational disease provision	-	-	-	-	191	191
	<u>6,647</u>	<u>7,160</u>	<u>4,532</u>	<u>-</u>	<u>191</u>	<u>18,530</u>
Less claims payments made:						
Current year injuries	2,648	1,433	-	-	-	4,081
Claims management	397	215	-	-	-	612
Prior years' injuries	2,329	5,799	2,336	(276)	-	10,188
Claims management	349	799	350	-	-	1,498
	<u>5,723</u>	<u>8,246</u>	<u>2,686</u>	<u>(276)</u>	<u>-</u>	<u>16,379</u>
Balance, end of year	<u>\$ 23,651</u>	<u>\$ 67,819</u>	<u>\$ 31,115</u>	<u>\$ 7,811</u>	<u>\$ 12,713</u>	<u>\$ 143,109</u>



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The following is an actuarial reconciliation of the changes in the benefits liability during the years ended December 31:

	<b>2017</b>	<b>2016</b>
	(\$ 000's)	(\$ 000's)
Balance, beginning of year	<u>\$ 143,109</u>	<u>\$ 140,958</u>
Add:		
Provision for current year's claims	9,871	8,492
Interest allocated	7,570	7,464
Experience (gain) loss	<u>3,167</u>	<u>(2,119)</u>
	<u>20,608</u>	<u>13,837</u>
Deduct:		
Payments for prior years' claims	12,565	11,686
Balance, end of year	<u><u>\$151,152</u></u>	<u><u>\$ 143,109</u></u>

**(a) Objectives in managing risks arising from insurance contracts and policies for mitigating those risks**

The Board has an objective to control insurance risk, thus reducing the volatility of operating results. In addition, due to the inherent uncertainty of insurance risk, which can lead to significant variability in the loss experience, operating results from the Fund's workers' compensation business are affected by market factors, particularly movements in asset values. Short-term variability is, to some extent, a feature of the workers' compensation business.

Key aspects of processes established to mitigate insurance risks include:

- The maintenance and use of management information systems, which provide data on the risks to which the Fund is exposed to at any point in time;
- Actuarial models, using information from the management information system, are used to monitor claims patterns and calculate assessment premiums. Past experience and statistical methods are used as part of the process; and
- The asset mix of the Fund investments is driven by the nature and term of insurance liabilities. The management of assets and liabilities is closely monitored to attempt to match maturity dates of assets with the expected pattern of claim payments.

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**(b) Terms and conditions of the Act**

The terms and conditions attaching to the Act affect the level of insurance risk accepted by the Fund. All workers' compensation coverage entered into is subject to substantially the same terms and conditions under the Act.

**(c) Concentration of insurance risk**

The Fund's exposure to insurance risk is due to workplace injury caused through an event or disaster that occurred during the reporting period, and/or occupational diseases diagnosed during the reporting period. The Fund's benefits liability includes an amount estimated to cover any such occurrences. This figure is reviewed on an annual basis. The Fund's risk is concentrated by industry as some industries have higher claims experience costs than other industries and is mitigated by higher assessments being charged to industries with proven higher experience costs.

**(d) Development of claims**

There is a possibility that changes may occur in the estimate of the Fund's obligations over time. The tables in part (i) of this note show the estimates of total net and gross claims outstanding for each underwriting year at successive year ends.

**(e) Interest rate risk**

The Fund is exposed to the risk that interest rate movements may materially impact the value of the benefits liability. The financial impact of changing interest rates on the benefits liability is expected to be offset in the longer term by similar changes in claims inflation.

The discount rate being applied to future claims payments in determining the valuation of the benefits liability is disclosed in part (g) of this note.

The exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets is set out in note 5.

**(f) Liquidity risk**

The Fund's exposure to liquidity risk is set out in note 5.

The following table estimates the expected amounts and timing of future benefit payments for the provision of outstanding claims. The expected timing of payments from the provision for outstanding claims involves considerable uncertainty. The projections presented below do not include a provision for future administration expenses or latent occupational diseases.

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Expected timing of future payments for outstanding claims:

	<u>2017</u>	<u>2016</u>
Up to 1 year	5%	5%
Over 1 year and up to 5 years	15%	16%
Over 5 years and up to 10 years	18%	20%
Over 10 years	62%	59%
Total	<u>100%</u>	<u>100%</u>

**(g) Actuarial assumptions and methods**

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

	<u>31-Dec-17</u>	<u>31-Dec-16</u>
Discount rate for medical aid benefits - net <sup>(1,3)</sup>	0.80%	1.00%
Discount rate for compensation benefits - net <sup>(2,3)</sup>	3.25%	3.40%
Discount rate for survivor and other pension benefits - net <sup>(2)</sup>	3.25%	3.40%

(1) Net of a discount rate attributable to inflation of 4.75% (2016 – 4.75%).

(2) Net of a discount rate attributable to inflation of 2.25% (2016 – 2.25%).

(3) The same discount rates are attributable to the applicable components of the occupational disease provision.

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.

The overall valuation approach is designed to reflect emerging trends without placing too much emphasis on temporary fluctuations. The factors used in the valuation have been developed on a best estimate basis, without margins for adverse deviations, by taking the Board's historical experience into consideration along with recent trends in that experience. The general philosophy is to avoid reacting too strongly to temporary fluctuations until there is sufficient evidence that a change in assumption is required. By waiting until a clear trend has emerged, this reduces the likelihood of larger liability adjustments than warranted, both positive and negative, and unstable financial results.

The degree to which the valuation reflects trends is partly impacted by formulas intended to place the appropriate amount of weight on observed experience for each recent year and partly impacted by professional judgment based on observation of payment and claiming trends, including discussions with the Board's staff about the underlying factors that might be causing an observed trend.

The Medical Aid liability represents the present value of expected future benefit payments for medical services in respect of all claims arising from injuries that occurred on or before December 31, 2017. Medical services include hospital and physician services, prescription drugs, travel expenses, and other eligible medical services under the Act.

The Short Term Compensation liability represents the present value of expected future short-term loss of earnings payments in the first seven years of a claim for injuries that

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occurred on or before December 31, 2017. The Short Term Compensation liability is included in the Compensation liability category for financial reporting purposes.

The Medical Aid and Short Term Compensation liabilities are calculated using the loss development method also known as the "claims run-off" approach. In this method, historical paid claims data are summarized by injury year and payment year in order to observe the relationships between payments at different durations for each injury year. Historical factors, at each duration, are developed from prior injury years and are applied to injury years that are not yet fully mature in order to estimate the future timing and amount of remaining benefit payments. A provision with respect to the ten percent annuity contribution required on loss of earnings benefits paid beyond 24 months is included in the Short Term Compensation liability.

The Long Term Compensation liability represents the present value of expected future long-term loss of earnings payments for injury years 2011 and prior, including future inflationary adjustments, for individuals still in receipt of a long-term loss of earnings award at December 31, 2017. The Long Term Compensation liability is calculated on a seriatim, or individual basis using the discounted cash flow method. Loss of earnings benefits are indexed annually in the month following the anniversary of the date of when the injured worker's loss of earnings began. Mortality rates are used to determine the future life expectancy of individuals in receipt of a long-term loss of earnings award. A provision with respect to the ten percent annuity contribution required on loss of earnings benefits paid beyond 24 months is included in the Long Term Compensation liability. The Long Term Compensation is included in the Compensation liability for financial reporting purposes.

The Pension liability represents the present value of expected future pension payments, including future inflationary adjustments, to individuals who have been approved for a pension or survivor award at December 31, 2017. The Pension liability is calculated on a seriatim basis using the discounted cash flow method. Pension benefits are indexed annually on January 1st of each year. Mortality rates are used to determine the future life expectancy of individuals in receipt of a pension award.

The Future Long Term Compensation liability represents the present value of future long-term loss of earnings awards that have not yet reached long-term status as of December 31, 2017. These future awards are in respect of all claims arising from injuries which occurred on or before December 31, 2017. The estimated number and timing of these future awards has been developed based on the historical emergence of claims. In addition, the expected cost of each claim has been developed based on actual long-term awards approved prior to December 31, 2017. A provision with respect to the ten percent annuity contribution required on future loss of earnings benefits paid beyond 24 months following injury is included in the Future Long Term Compensation liability. The Future Long Term Compensation liability is included in the Compensation liability category for financial reporting purposes.

The Occupational Disease provision represents a portion of the present value of the expected future cost of claims that have not yet been filed but are expected to manifest themselves in the future as a result of cumulative exposure to a causative agent in the workplace (i.e. long latency cases). Only a portion of the total provision is held based on

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the accumulated exposure up to the valuation date relative to total exposure before an occupational disease manifests itself. Occupational diseases differ from occupational injuries in that there can be a considerable time lag between the exposure, the manifestation of the disease and the identification of the ensuing disability as a workers' compensation claim. Furthermore, while the circumstances of an injury usually make it clear whether it is work related or not, the link between an occupational disease and the workplace may be difficult to establish.

The discount rate is used to calculate the present value of expected future payments.

The administration rate represents the present value of the expected future costs required to provide administrative services for the continuation of claims management and maintenance of existing claims. The administration rate applied at December 31, 2017 is 15% (15% for December 31, 2016), and is applied to all liability components with the exception of the Annuity liability.

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 significant changes in the benefits liability for experience gains or losses as at December 31 were:

	<b>Increase (decrease) in benefits liability</b>	
	<b>2017</b> (\$000s)	<b>2016</b> (\$000s)
Change in runoff factors	\$ 1,118	\$ (99)
Update of first year inflation	(449)	(631)
Change in mortality table	-	4,368
Change in discount rate	1,697	-
Other changes in actuarial assumptions	2,092	649
	<u>\$ 4,458</u>	<u>\$ 4,287</u>
Change in old age security	-	(4,519)
Annuity top up	-	747
(Favourable) unfavourable claims experience during year	(2,707)	(3,320)
	<u>\$ 1,751</u>	<u>\$ (2,805)</u>
Actual versus expected claims paid on prior years' injuries	1,416	686
	<u>\$ 3,167</u>	<u>\$ (2,119)</u>

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On March 22, 2016, the Government of Canada announced during the Budget Speech that the eligibility age for Old Age Security pension benefits would decrease from age 67 to 65. This change was passed into law and received Assent on June 22, 2016, and it had an effect on the benefits liability by decreasing it as the loss of earning benefits for those workers affected by the change will no longer be paid beyond age 65. This decrease resulted in a \$4,519,000 experience gain in 2016 which is included in the significant changes in the benefits liability as at December 31, 2016 for experience gains or losses.

**(h) Liability sensitivity**

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 resulting in an increase in claims expense and benefits liability. An increase in the discount rate would decrease the actuarial present value, resulting in a decrease in claims expense and benefits liability.

Medical benefits represent approximately 20% (2016 – 20%) of the benefits liability. A change in the assumed excess medical inflation rate (above the assumed inflation rate) and the net discount rate would result in a change in claims expense and the benefits liability as follows:

Percentage change in assumed rates	31-Dec-17 (\$000s)		31-Dec-16 (\$000s)	
	+1%	-1%	+1%	-1%
Increase (decrease) in claims expense and benefits liability from change in net discount rate	\$ (12,449)	\$ 14,682	\$ (11,191)	\$ 13,094
Increase (decrease) in claims expense and benefits liability from change in excess medical inflation rate	3,341	(2,785)	2,945	(2,458)

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**(i) Claims Development**

The following table shows the development of claims cost estimates for the nine most recent injury years:

Estimate of Ultimate Claim Payments	2008 (\$000s)	2009 (\$000s)	2010 (\$000s)	2011 (\$000s)	2012 (\$000s)	2013 (\$000s)	2014 (\$000s)	2015 (\$000s)	2016 (\$000s)	2017 (\$000s)	Total (\$000s)
At end of accident year	24,593	21,560	26,001	28,402	24,192	24,513	24,789	19,067	18,600	21,347	
One year later	19,487	18,820	23,288	26,111	25,187	20,973	25,327	19,126	25,298		
Two years later	17,116	18,092	23,006	25,087	22,366	20,821	25,644	20,206			
Three years later	16,422	17,895	21,645	21,837	22,418	20,327	25,866				
Four years later	15,667	17,497	17,971	20,488	22,386	20,675					
Five years later	15,248	14,601	16,857	20,024	23,706						
Six years later	11,284	12,098	14,205	21,596							
Seven years later	11,147	11,855	14,410								
Eight years later	10,925	11,082									
Nine years later	11,251										
<b>Cumulative Payments</b>											
At end of accident year	3,082	2,454	3,182	3,721	4,433	3,438	3,757	3,801	3,879	4,129	
One year later	4,707	3,963	4,787	5,618	7,404	5,113	6,590	6,081	6,673		
Two years later	5,198	4,500	5,394	6,222	8,277	5,910	7,890	6,773			
Three years later	5,371	4,880	5,635	6,648	8,999	6,394	9,018				
Four years later	5,469	5,067	5,833	6,910	9,540	6,719					
Five years later	5,653	5,254	6,085	7,211	10,073						
Six years later	5,453	5,408	6,318	7,450							
Seven years later	5,590	5,581	6,462								
Eight years later	5,697	5,708									
Nine years later	5,837										
Estimate of Future Payments	5,414	5,374	7,948	14,146	13,633	13,956	16,848	13,433	18,625	17,218	126,595
2007 and prior claims											106,168
Effect of Discounting											(111,133)
Effect of Admin Expenses											16,094
Effect of Occupational Disease Liability											<u>13,428</u>
Balance Sheet Liability											<u>151,152</u>

During the year ended December 31, 2017, the investigations unit continued to monitor ongoing investigations. 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.

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**13. Employee Benefits**

	<b>31-Dec-17</b>	<b>31-Dec-16</b>
	(\$000s)	(\$000s)
Short-term employee benefits	\$ 432	\$ 583
Other long-term employee benefits (a)	883	854
Post-employment benefits (b)	1,407	1,555
	<u>\$ 2,722</u>	<u>\$ 2,992</u>

Short-term benefits included in the above amounts are expected to be paid within the next twelve months.

**(a) Other Long-term Employee Benefits**

Long service vacation leave is an additional five days of vacation leave available to employees who have completed five years of continuous service with the Board and on each five year anniversary date thereafter.

Employees receive six days of special leave credits for each year of service up to a maximum of 30 days. Unused special leave is not payable upon termination or retirement.

Unused sick leave credits accumulate and are carried forward to a maximum of 180 days. A retiring employee may convert up to one third as pre-retirement leave.

The balance in the liability accrual for accumulating sick and special leave benefits and long service vacation for the year was:

	<b>31-Dec-17</b>	<b>31-Dec-16</b>
	(\$000s)	(\$000s)
Long service vacation benefits	\$ 59	\$ 38
Accumulating sick and special leave benefits	824	816
Total	<u>\$ 883</u>	<u>\$ 854</u>

The movement in the accrual for other long-term benefits for the year was:

	<b>2017</b>	<b>2016</b>
	(\$000s)	(\$000s)
Benefits, beginning of the year	\$ 854	\$ 856
Current service cost	66	67
Payments made during the year	(123)	(94)
Interest cost	29	27
Actuarial (gain) loss and other changes	57	(2)
Benefits, end of the year	<u>\$ 883</u>	<u>\$ 854</u>



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Actuarial (gain) loss remeasurements:

	<b>2017</b>	<b>2016</b>
	(\$000s)	(\$000s)
Effect of changes in financial assumptions	\$ (2)	\$ (22)
Effect of changes in demographic assumptions	59	20
Remeasurements (gain) loss in profit or loss	<u>\$ 57</u>	<u>\$ (2)</u>

**(b) Post-employment Benefits**

**(i) Retirement and Severance Benefit**

Retirement or severance benefits are available to employees who have completed five years of service with the Board. Retirement benefits are one week of pay for each year of service. Severance benefits are half a week of pay for each year of service to a maximum of twenty-eight weeks.

Management employees have a graded retirement and severance benefits per service year arrangement with no maximum payout limit.

The movement in the accrual for retirement and severance benefits for the year was:

	<b>2017</b>	<b>2016</b>
	(\$000s)	(\$000s)
Benefits, beginning of the year	\$ 1,555	\$ 1,338
Current service cost	86	90
Payments made during the year	(365)	(121)
Interest cost	51	44
Actuarial loss and other changes	80	204
Benefits, end of the year	<u>\$ 1,407</u>	<u>\$ 1,555</u>

Actuarial loss remeasurements:

	<b>2017</b>	<b>2016</b>
	(\$000s)	(\$000s)
Effect of changes in financial assumptions	\$ (3)	\$ (37)
Effect of changes in demographic assumptions	83	241
Remeasurements loss in other comprehensive income	<u>\$ 80</u>	<u>\$ 204</u>

The plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. The risk of default is low as the Fund is in a strong financial position.

The key assumptions used to calculate the retirement and severance benefit are the discount rate and the wage inflation rate. The discount rate of 3.10% (2016 – 3.50%) is selected by reference to a spot curve at the valuation date of high-quality corporate and provincial debt instruments with cash flows that match the timing and amount of the expected benefit payments. The annual rate of general escalation in wages is 1.5% for

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2018 based on negotiated wage increases, and 1.5% for 2019 and beyond (2016 – 1.5% in 2017) based on management's best estimate.

The expected Fund contributions for retirement and severance for the next year are \$255,000 (2017 – \$491,000). The weighted average duration of the retirement and severance benefit is 6.7 years (2016 – 6.6 years).

**(ii) Retirement and Severance Benefit Risks and Sensitivity**

The retirement and severance benefit is indirectly exposed to measurement risk from assumptions based on economic factors and uncertainty of future economic conditions, such as discount rates affected by volatile bond markets and inflation risk due to payment timing uncertainty. Demographic factors such as workforce average age and earnings levels, attrition and retirement rates affect current and future benefit costs due to the amount and timing of expected payments.

A change in the key assumptions used to calculate these benefits would result in a change in the obligation and benefit expense as follows:

Percentage change in assumed rates	31-Dec-17 (\$000s)		31-Dec-16 (\$000s)	
	+1%	-1%	+1%	-1%
Discount rate	\$ (87)	\$ 97	\$ (93)	\$ 105
Wage Inflation rate	\$ 98	\$ (89)	\$ 81	\$ (73)

The above sensitivity analysis is based on a change in an assumption while keeping all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. The same method of calculation has been applied to the sensitivity analysis as to the calculation of the retirement and severance benefit obligation, the projected unit credit method, and did not change compared to the prior year.

**(iii) Public Service Pension Plan**

Substantially all of the employees of the Board are covered by the Public Service Pension Plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Fund. The President of the Treasury Board of Canada sets the required employer contributions based on a multiple of the employees' required contribution.

The employer contribution rates effective for the year were as follows:

Contribution rate for the year	2017		2016	
	Up to Maximum	Above Maximum	Up to Maximum	Above Maximum
For employees eligible before January 1, 2013	1.01	7.74	1.15	6.67
For employees eligible after January 1, 2013	1.00	7.74	1.11	6.67
Maximum salary limit	\$ 163,100	No limit	\$ 161,700	No limit

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The Government of Canada holds a statutory obligation for the payment of benefits relating to the Plan. Pension benefits generally accrue up to a maximum period of 35 years at an annual rate of two percent of pensionable service times the average of the best five consecutive years of earnings. The benefits are coordinated with Canada/Québec Pension Plan benefits and they are indexed to inflation. For employees joining the plan after January 1, 2013, the normal retirement age has been raised from age 60 to age 65.

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

	2017	2016
	(\$000s)	(\$000s)
Employees' contributions	\$ 640	\$ 614
Fund contributions	\$ 663	\$ 724

The expected contributions to the Plan for the next year are \$636,000 (2017 – \$604,000) employee contributions and \$624,000 (2017 – \$622,000) Fund contributions.

**(c) Benefit Expense**

Benefit expense recognized in salaries and benefits within administration expenses in the Statement of Operations and Comprehensive Income for other long-term employee benefits and post-employment benefits was \$952,000 in 2017 (2016 - \$950,000).

**14. Capital Management, Surplus Distributions and Reserves**

**(a) Capital Management**

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 is the net difference between 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. At the end of the fiscal year, once the benefits liability is determined, the net 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, 2017, the Funding Ratio was 143% (2016 – 150%). Management's funding target ratio is between 121% and 129%, which ensures that the Fund remains fully funded plus sustains the Adverse Events and Stabilization Reserves' target funding

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levels. 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.

**(b) Surplus Distributions**

In 2017, in order to bring the Funding Ratio closer to target, the Board of Directors approved a surplus distribution of \$9,997,000 (2016 - \$10,030,000) to be paid out to eligible employers.

Reconciliation of funding policy surplus distributions:

	31-Dec-17 (\$000s)	31-Dec-16 (\$000s)
Current year surplus distributions released	\$ 9,763	\$ 9,746
Current year surplus distributions withheld	234	284
	9,997	10,030
Prior year surplus distribution adjustments	(33)	(245)
Current year surplus distribution adjustment	(19)	(167)
Funding policy surplus distributions	<u>\$ 9,945</u>	<u>\$ 9,618</u>

An amount of \$9,763,000 was paid relating to the 2017 approved surplus distribution (2016 – \$9,746,000). Distributions paid are conditional upon employers being compliant with the *Workers' Compensation Act* and *Occupational Health and Safety Act*. At December 31, 2017, \$234,000 (2016 - \$284,000) in surplus distributions were withheld due to non-compliance by employers.

Reconciliation of surplus distributions payable:

	31-Dec-17 (\$000s)	31-Dec-16 (\$000s)
Surplus distributions payable, beginning of year	\$ 117	\$ 372
Amounts paid for prior year surplus distributions	(84)	(127)
Prior year surplus distribution adjustments	(33)	(245)
Current year surplus distributions withheld	234	284
Current year surplus distribution adjustment	(19)	(167)
Surplus distributions payable, end of year	<u>\$ 215</u>	<u>\$ 117</u>

**(c) Reserves**

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

(i) 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 ten percent of the benefits liability. In 2017 the benefits liability was \$151,152,000 (2016 – \$143,109,000). The target was \$15,115,000 as at December 31,

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2017 (2016 – \$14,311,000). The operating range for this reserve is determined as the target level balance plus or minus three and a half percent of the benefits liability. At December 31, 2017, the Stabilization Reserve has a balance of \$44,062,000 (2016 – \$51,904,000).

This reserve is considered to have a surplus when its balance exceeds the top of the operating range and a deficit if the reserve balance is below its target level. The funding policy requires that any deficiency or surplus at the end of a fiscal year be amortized over a period not exceeding ten years from the year in which the deficiency or surplus arose.

A rebate in 2017 was included in the assessment rates as required by the Funding Policy based on the 2016 funded position.

**(ii) 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 \$23,675,000 (2016 – \$22,795,000), which has been set at 100 times the maximum wage rate plus ten 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 2017 (2016 – 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 2017 (2016 – nil). At December 31, 2017, the Adverse Events Reserve has a balance of \$23,675,000 (2016 – \$22,795,000).

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.

**15. Related Party Transactions****(a) Government of Yukon**

The Board is a territorial entity with delegated powers on behalf of the Government of Yukon (the “Government”), and is related to all Government departments, agencies and Government corporations.

During 2017, the Compensation Fund paid the Government \$220,000 (2016 – \$226,000) for computer, office supplies, payroll processing, recruitment, and vehicle services. The Fund also reimbursed the Government for payroll costs of \$8,986,000 (2016 – \$8,740,000).

Reimbursements for claims costs received from the Government were \$366,000 in 2017 (2016 – \$512,000) (note 4(b)).

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The Board enters into transactions with the Government and entities related to the Government in the normal course of business and the transactions are recorded at fair value.

Revenues and recoveries from the Government for the year ended December 31, 2017 totalled \$6,290,000 (2016 – \$6,079,000), including the Mine Safety Program Grant (note 11).

During 2017, the Board issued a \$2,446,000 (2016 – \$2,331,000) surplus distribution to the Government.

Balances due to and from Government of Yukon were as follows:

	<b>31-Dec-17</b>	<b>31-Dec-16</b>
	(\$000s)	(\$000s)
Due to the Government of Yukon	\$ (1,602)	\$ (1,038)
Due from the Government of Yukon - Recoveries	109	129
Due from the Government of Yukon - Assessments	265	257
Net amount due	<u>\$ (1,228)</u>	<u>\$ (652)</u>

The Workers' Advocate Office operates independently from the Board and assists workers or dependants of workers in respect of claims for compensation. The approved budget of the Workers' Advocate shall be paid out of the compensation fund. In 2017, the Fund reimbursed the Government \$454,000 (2016 – \$492,000) for the Workers' Advocate Office expenses.

**(b) Key Management Personnel**

The remuneration of key management personnel, which includes the members of the Board of Directors and the senior management team, recognized as an expense during the period was:

	<b>2017</b>	<b>2016</b>
	(\$000s)	(\$000s)
Short-term employee compensation and benefits	\$ 1,053	\$ 1,335
Other long-term employee benefits	28	24
Post employment benefits	168	316
Total remuneration	<u>\$ 1,249</u>	<u>\$ 1,675</u>

Contributions made to the Public Service Pension Plan by the Fund for key management personnel was \$112,000 (2016 – \$153,000) and are included in post employment benefits.

Transactions with responsible key management personnel are negotiated on a commercial basis. Conflicts are overcome by directors declaring their interests and abstaining from voting at Board of Directors meetings.

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**16. Commitments**

The Fund has entered into the following contractual commitments for the next five years:

	Contribution agreements (\$000s)	Computer systems support (\$000s)	Professional services (\$000s)	Building maintenance (\$000s)	Other (\$000s)	Total (\$000s)
2018	\$ 801	\$ 28	\$ 303	\$ 57	\$ 38	\$ 1,227
2019	559	-	252	-	21	832
2020	570	-	260	-	12	842
2021	581	-	-	-	-	581
2022	593	-	-	-	-	593
	<u>\$ 3,104</u>	<u>\$ 28</u>	<u>\$ 815</u>	<u>\$ 57</u>	<u>\$ 71</u>	<u>\$ 4,075</u>

**17. Administration Expenses**

	2017 (\$000s)	2016 (\$000s)
Salaries and benefits	\$ 8,322	\$ 8,626
Consulting and professional	1,287	1,076
Amortization - intangible assets	689	675
Statutory funding obligations	584	606
Depreciation - property and equipment	518	412
Buildings	435	413
General administration	416	316
Computer systems	352	309
Automobile and travel	246	244
Communications	215	217
Staffing and recruitment	200	155
System development analysis expense	150	23
Board expenses	117	95
Printing and publications	61	77
Supplies and stationery	51	48
Furniture and equipment	42	44
Lease expense	36	57
	<u>\$ 13,721</u>	<u>\$ 13,393</u>
Less: claims administration expense transferred to claims expenses (note 12)	<u>(2,266)</u>	<u>(2,110)</u>
	<u>\$ 11,455</u>	<u>\$ 11,283</u>

Certain comparative figures have been reclassified to conform to the current year's presentation (note 19).

**18. Contingencies**

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.

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**19. Reclassification**

In the administration expenses note, statutory funding obligation is now identified as a separate expense category to provide clarity where previously the costs were included in each of the categories. Statutory funding obligations are defined as costs related to the Workers Advocate Office and the Appeal Tribunal.

	<b>Revised 2016</b> <b>(\$000s)</b>	<b>2016</b> <b>(\$000s)</b>
Salaries and benefits	\$ 8,626	\$ 9,073
Consulting and professional	1,076	1,078
Amortization - intangible assets	675	675
Statutory funding obligations	606	-
Buildings	413	424
Depreciation - property and equipment	412	412
General administration	316	364
Computer systems	309	309
Automobile and travel	244	255
Communications	217	222
Staffing and recruitment	155	164
Board expenses	95	127
Printing and publications	77	78
Lease expense	57	92
Supplies and stationery	48	52
Furniture and equipment	44	45
System development analysis expense	23	23
	<u>\$ 13,393</u>	<u>\$ 13,393</u>
Less: claims administration expense transferred to claims expenses (note 12)	<u>(2,110)</u>	<u>(2,110)</u>
	<u>\$ 11,283</u>	<u>\$ 11,283</u>