

COMPENSATION FUND (YUKON)

FINANCIAL STATEMENTS

December 31, 2022

(audited)

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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"), as managed by the Workers' Safety and Compensation Board (the "Board"), for the year ended December 31, 2022. 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 (IFRS).

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 actual results may differ materially from those expressed or implied.

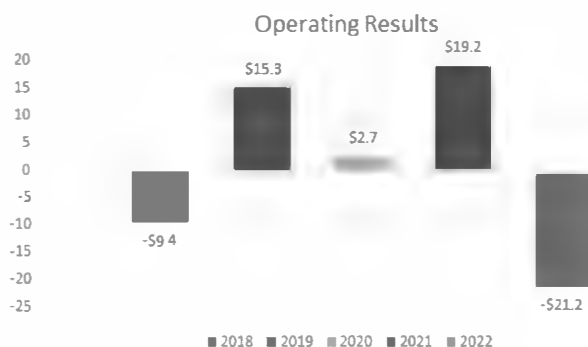
Risk management

In order to identify and manage the many risks that the organization faces, an enterprise risk management system has been implemented. Its purpose is to identify risks that could impede the organization's ability to carry out its mandate of preventing injuries and helping injured workers and their families. Risks are identified and ranked by probability and impact. Risk owners are assigned, and mitigation measures are identified, implemented and monitored throughout the year. These measures are reviewed through the internal audit process to assure the organization that measures are functioning as anticipated. Annually, management formally reviews the risks and corresponding mitigation strategies with the Board of Directors.

The top risks for 2022 did not materially change from 2021. These were identified as outdated legislation, the disruption of operations by cyberattacks and the inability to respond to changing stakeholder needs in a rapidly changing environment. Ongoing mitigation of these risks include the implementation of the *Workers' Safety and Compensation Act* (the Act) in July of 2022, information technology security enhancements and continued commitment to business process improvements.

Operating results

In 2022, the Fund incurred an operating loss of \$21.2 million versus a \$19.2 million surplus in 2021. This large change is a result of incurring a net investment loss of \$24 million in 2022 versus net investment income of \$27 million in 2021.



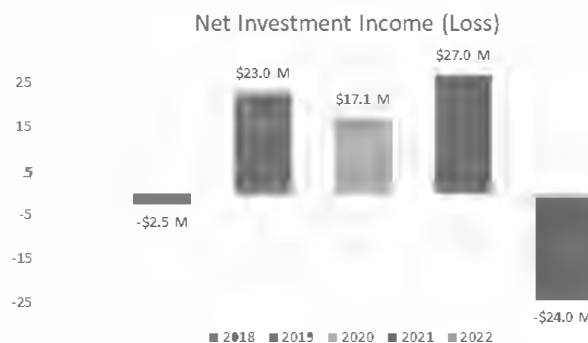
Total comprehensive income (loss), which includes the actuarial gain or loss on post-employment benefits, was a loss of \$21.1 million in 2022 versus income of \$19.2 million in 2021. There was no funding policy surplus distribution in 2022 or 2021.

The main difference in total comprehensive income (loss) is due to the huge swing in investment income, as previously mentioned.

Revenues

The Fund's revenue and income totalled \$13.4 million in 2022 versus \$60.1 million in 2021. The change in overall revenue was mainly due to the net investment loss incurred in 2022 which was partially offset by an increase of \$3.3 million in assessment revenue.

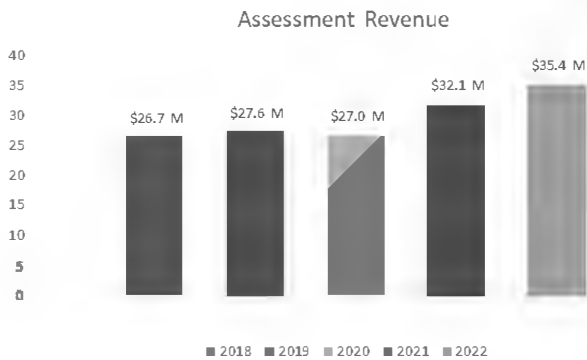
The net investment loss in 2022 was \$24 million versus net investment income of \$27 million in 2021, a decrease of \$51 million.



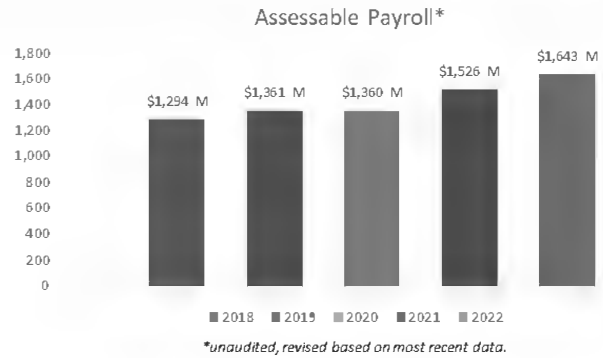
In 2022, the Fund's investments declined due to poor equity markets and poor fixed income returns, ending the year with an overall negative return of 9.5%. The four-year annualized return dropped from 7.9% to 5.5%. At December 31, 2022, the investment portfolio's asset mix was 43% fixed income and 57% equities. Bonds had one of the worst years on record, posting a loss of 10.3% as central banks dramatically increased interest rates, pushing the value of bonds downward. Equities recorded a loss of 8.9% for the year.



Assessment revenue in 2022 was \$35.4 million versus \$32.1 million in 2021, a 10% increase, primarily due to an overall increase in assessable payroll. The average collected assessment premium rate has remained relatively stable year over the year, as in 2022 it was \$2.15.



The increase in assessable payroll of 8% was related to an overall increase in economic activity in the Yukon in 2022. Although some sectors were not at their pre-pandemic levels, others continued to see steady growth. These include mining, construction, transportation and government. Also, there was an overall increase in registered employers from 3933 in 2021 to 4035 in 2022.

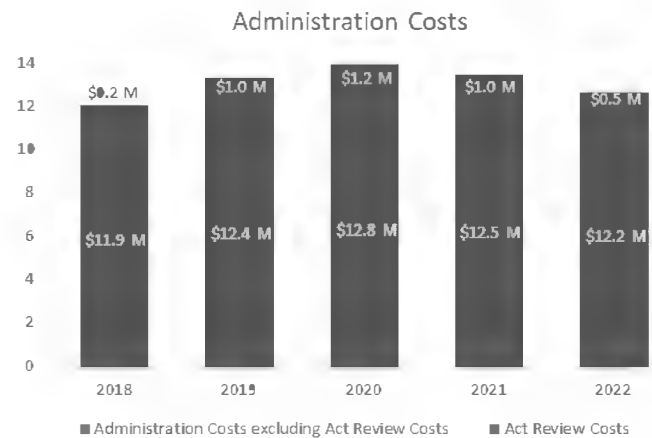


Expenses

Total claims expenses decreased to \$20.9 million in 2022 from \$26.7 million in 2021. The decrease was due to a number of factors including an increase in the discount rate and a decrease in the occupational disease costs.



Administration costs decreased to \$12.7 million in 2022 from \$13.5 million in 2021. This decrease was mainly attributed to staffing vacancies throughout the year.



Balance sheet

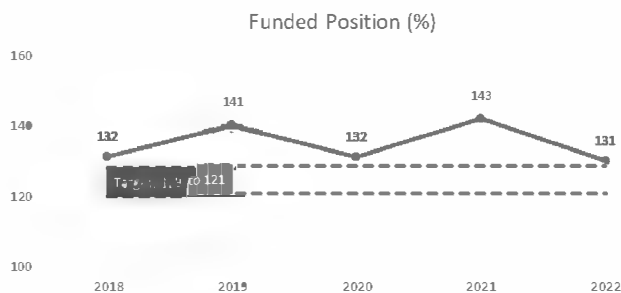
At the end of each fiscal year, the Board's actuary calculates the benefits liability for all injuries that have occurred to date. This liability represents the actuarial present value of all future benefits and related administration costs. As at December 31, 2022, this liability was \$178 million, an increase of less than 1% over the previous year. The main driver of the lower than expected increase was the revised discount rate assumption, which was increased from 5.15% to 5.65%.

The total assets of the Fund decreased by \$21.6 million, or 8%, in 2022. This increase was attributable to the decline in the investments caused by losses which were fuelled by the dramatic increases in interest rates in 2022.

Funded 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 injured 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.

As at December 31, 2022, the funding ratio was 131%, down from 143% in 2021, due to poor investment returns in 2022.



Significant changes in accounting standards

IFRS 17 *Insurance Contracts*, effective January 1, 2023, will have an impact on the Board's financial statements. The areas expected to be impacted are the benefits liability on the Statement of Financial position, presentation and disclosure of the financial statements. Work on these changes began in 2021 and will continue throughout the next year.

Implementation of the new Act

The organization implemented the new *Workers' Safety and Compensation Act*, which came into effect July 1, 2022. Changes to the Act include expanding the eligible listed diseases (cancers) for firefighters; expanding the post-traumatic stress disorder presumption to cover all workers, subject to certain conditions being met; removing the reduction of earnings loss benefits relating to disability benefits paid to a worker for a work-related injury under the Canada and Quebec pension plan legislation; expanding the period of eligibility for earnings loss benefits for older workers; and increasing the loss of earnings benefits for low-income workers.

A year of volatility and uncertainty

In terms of COVID-19, 2022 started with a new wave of cases related to the Omicron variant. Along with this, supply chains were failing and inflation was rising, which accelerated when the war in Ukraine started. Interest rates increased drastically as central banks tried to beat down inflation and markets dropped. On top of this, large numbers of people left the workforce and labor shortages were common in all sectors.

Future outlook

As we progress into 2023, the Board continues to face challenges in a rapidly changing and volatile fiscal environment. During such times, it is important for organizations to have the resiliency and resources to meet the challenges and opportunities that will occur in the next few years. Fortunately, the Fund is in a very strong financial position which has allowed it to weather the worst financial downturn in over a decade. This financial strength has provided stable rates for employers, allowed for legislated improvements in benefits to injured workers and ensured that future obligations to injured workers will be met. Our financial strength continues to allow the organization to help monitor the safety of all Yukon workplaces.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of the Workers' Safety and Compensation Board - Yukon (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; the Fund'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. Management is responsible for preparing the accompanying financial statements in accordance with International Financial Reporting Standards. Other financial information included in the Annual Report is consistent with these financial statements.

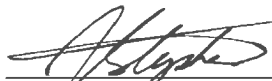
Members of the Board of Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises its responsibilities through the Finance, Investment, and Audit Committee (the "Committee"). The Committee meets 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 her opinion on the financial statements. She also considers whether the transactions that come to her notice in the course of the audit are, in all significant respects, in accordance with specified legislation.

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



Kurt Dieckmann, MBA, CRSP
President and Chief Executive Officer



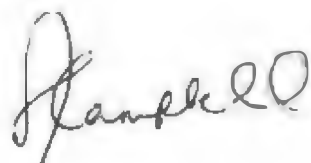
Jim Stephens, CPA, CMA, CGA
Vice President, Operations and Chief Financial Officer

April 18, 2023

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, 2022 (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 \$179,868,583. This amount consists of \$178,008,712 for the benefit liability and \$1,859,870 for the Provisional Pensioners liability. 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 Retirement benefit. It does not include any accrued liability for claims arising from self-insured accounts.
5. The liability as at the valuation date for Retirement 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' Safety and Compensation Act and on the board's policies and practices in effect on the valuation date.



Sekayi Campbell, F.C.I.A.

This report has been peer reviewed by Crispina Caballero, F.C.I.A.

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INDEPENDENT AUDITOR'S REPORT

To the Workers' Safety and Compensation Board, board of directors and Minister responsible for the Compensation Fund

Opinion

We have audited the financial statements of the Compensation Fund, which comprise the statement of financial position as at 31 December 2022, 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Compensation Fund as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Compensation Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Workers' Safety and Compensation Board's annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

In preparing the financial statements, management is responsible for assessing the Compensation Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Compensation Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Compensation Fund's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Compensation Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Compensation Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Compensation Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



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

Edmonton, Canada
18 April 2023

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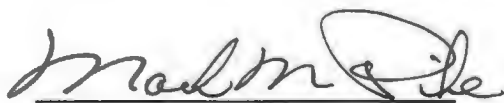
Compensation Fund
Statement of Financial Position
As at December 31 (in thousands of Canadian dollars)

	2022	2021 (Note 19)
Assets		
Cash	\$ 8,898	\$ 7,008
Accounts receivable (Note 6)	3,427	3,187
Prepaid expenses	415	310
Investments (Note 7)	221,363	244,798
Property and equipment (Note 8)	10,123	9,992
Intangible assets (Note 9)	2,494	3,067
Total assets	\$ 246,720	\$ 268,362
Liabilities		
Accounts payable and accrued liabilities (Note 10)	\$ 4,134	\$ 4,981
Surplus distributions payable (Note 14)	-	22
Other provisions (Note 11)	1,859	1,877
Benefits liability (Note 12)	178,010	177,398
Employee benefits (Note 13)	3,685	3,927
Total liabilities	187,688	188,205
Funded Position (Equity)		
Reserves (Note 14)	59,032	80,157
Total equity	59,032	80,157
Total liabilities and equity	\$ 246,720	\$ 268,362

Commitments and Contingencies (Notes 16 and 18)

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

Approved by the Workers' Safety and Compensation Board



Mark Pike, Chair

Compensation Fund
Statement of Operations and Comprehensive Income
For the year ended December 31 (in thousands of Canadian dollars)

	2022	2021 (Note 19)
Revenue and Income		
Assessment revenue	\$ 35,357	\$ 32,085
Net investment income (loss) (Note 7)	(24,003)	26,960
Recoveries and other receipts	1,993	1,048
	13,347	60,093
Expenses		
Claims expenses (Note 12)	20,908	26,674
Administration (Note 17)		
General and administration	9,421	9,712
Occupational health and safety	2,152	2,188
Act and regulation amendments	512	965
Workers' advocate	361	330
Employer advisor	91	146
Appeal tribunal	210	117
Other provisions (Note 11)	100	130
Prevention	799	677
	34,554	40,939
Net (deficit) surplus	\$ (21,207)	\$ 19,154
Other comprehensive income		
All items presented in other comprehensive income will not be reclassified to net (deficit) surplus in subsequent periods:		
Actuarial gain on post-employment benefits (Note 13)	82	91
Total comprehensive (loss) income	\$ (21,125)	\$ 19,245

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 thousands of Canadian dollars)

	Stabilization Reserve (Note 19)	Adverse Events Reserve (Note 19)	Total
Balance at January 1, 2021	\$ 34,778	\$ 26,134	\$ 60,912
Net surplus for 2021	19,154	-	19,154
Other comprehensive gain	91	-	91
Total comprehensive income for 2021	19,245	-	19,245
Transfer to Adverse Events Reserve	(799)	799	-
Balance at December 31, 2021	\$ 53,224	\$ 26,933	\$ 80,157
Net deficit for 2022	(21,207)	-	(21,207)
Other comprehensive gain	82	-	82
Total comprehensive loss for 2022	(21,125)	-	(21,125)
Transfer to Adverse Events Reserve	(300)	300	-
Balance at December 31, 2022	\$ 31,799	\$ 27,233	\$ 59,032

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

Compensation Fund

Statement of Cash Flows

For the year ended December 31 (in thousands of Canadian dollars)

	2022	2021
Operating activities		
Cash received from:		
Employers, for assessments	\$ 35,236	\$ 31,033
Investment revenue - interest	2,736	2,470
Investment revenue - dividends	2,658	2,665
Recoveries and other receipts	1,993	1,024
	42,623	37,192
Cash paid:		
To employers, for surplus distributions	(22)	(10,166)
For claims, claims administration and other provisions	(20,509)	(18,114)
To employees and suppliers, for administration and prevention	(13,861)	(12,909)
	(34,392)	(41,189)
Total cash provided by (used for) operating activities	8,231	(3,997)
Investing activities		
Net (purchases) sale of investments	(5,221)	7,700
Purchases of property and equipment	(665)	(1,056)
Purchases of intangible assets	(455)	(636)
Total cash (used for) provided by investing activities	(6,341)	6,008
Net increase in cash	1,890	2,011
Cash, beginning of year	7,008	4,997
Cash, end of year	\$ 8,898	\$ 7,008

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

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

1. Reporting Entity

The Compensation Fund (the “Fund”) is continued by the *Workers’ Safety and Compensation Act* (the “Act”). This new Act was passed on December 2, 2021 and came into effect July 1, 2022. The Act supersedes the *Workers’ Compensation Act* of Yukon and *Occupational Health and Safety Act* and regulations.

The Workers’ Safety and Compensation Board - Yukon (the “Board”) was continued under the Act. The Board’s mandate is to administer the Act and regulations and provide compensation benefits to workers who sustain work-related injuries. Annual assessments are levied on employers by applying their industry assessment rate to their actual or estimated payrolls for the year. Assessment and investment revenues pay for all claims, administration, other provisions and prevention expenses.

The Board’s office is located at 401 Strickland Street, Whitehorse, Yukon, Canada, with operations exclusively within the Yukon. The Board is exempt from income tax and the goods and services tax.

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 2022 financial statements on April 18, 2023.

Basis of measurement

These financial statements have been prepared on a historical cost basis, except for the following: investments classified as held-for-trading that are measured at fair value, and the benefits liability, other provisions and employee benefits which are both actuarially determined. The Fund’s functional currency is the Canadian dollar, which is the currency of the primary economic environment in which the Fund operates, and is also the presentation currency of the financial statements.

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

2. Statement of Compliance and Basis of Preparation (continued)

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.

The significant areas of estimation uncertainties that 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

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

New and revised IFRS issued but not yet effective

The Board reviewed new or revised standards that were issued but yet not effective for 2022 and concluded that there would be no significant impact on the Fund's financial statements in the future as a result of these new or revised standards, except as follows:

IFRS 17 *Insurance Contracts*

The International Accounting Standards Board (IASB) issued IFRS 17 *Insurance Contracts* which will replace IFRS 4 *Insurance Contracts*. In June 2020, an amendment was issued to defer the effective date of IFRS 17 to annual periods beginning on or after January 1, 2023. The Board has elected to apply the deferral, therefore this standard will be effective for the year beginning on January 1, 2023, with a transition date of January 1, 2022.

The standard will affect how the Board accounts for insurance contracts and how financial performance is reported, presented in the Statement of Comprehensive Income, and disclosed in the notes to the financial statements.

The standard will have material impacts for the Board's financial reporting by introducing new recognition and measurement approaches for insurance revenue and liabilities. One of the most significant changes is the move to a market-based interest rate which is used to discount the future cash flows of the benefits liability which is expected to impact the benefits liability on the Statement of Financial Position at transition and is expected to cause greater fluctuations in reported income.

The Board is currently finalizing its quantification of the impact from adoption of this standard.

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

3. Application of New and Revised IFRS (continued)

IFRS 9 *Financial Instruments*

IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking expected credit loss impairment model. The standard was effective for annual periods beginning on or after January 1, 2018; however, amendments were issued to IFRS 4 that provided optional relief to eligible insurers in respect of IFRS 9. The Board evaluated its liabilities and concluded they were predominately connected with insurance. As the Board has not previously applied IFRS 9, the Board is an eligible insurer and, effective January 1, 2018, elected to apply the optional transitional relief under IFRS 4 permitting deferral of the adoption of IFRS 9.

In 2020, the temporary exemption from applying IFRS 9 was extended until annual reporting periods beginning on or after January 1, 2023, to coincide with the deferral of the effective date of IFRS 17. The Board will continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* until the implementation of IFRS 17. The impact of applying IFRS 9 is not expected to have a material impact on the Fund's financial statements.

4. Significant Accounting Policies

The following is a summary of the Fund's significant accounting policies:

(a) Cash

For the purposes of the Statement of Financial Position and Statement of Cash Flows, cash includes cash on hand, bank balances, net of any bank overdrafts and cash held by investment custodians for investment purposes.

Foreign currency transactions incurred within operating activities are translated based on the exchange rate at the time of the transaction. Any cash balances remaining in foreign currency bank accounts at year end are translated at the exchange rate in effect as of December 31 of that year. Any gains or losses incurred as a result of translations are recorded in the Statement of Operations and Comprehensive Income.

(b) Assessments, 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 receivable and payable are adjusted based on the difference between estimated and actual payrolls.

The Government of Yukon pays certain claims costs to the Fund for claims prior to 1993 and reimburses the cost of supplementary benefits pursuant to the Yukon Workers' Compensation Supplementary Benefits Ordinance. Under the Ordinance, supplementary compensation benefits are granted 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.

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

4. Significant Accounting Policies (continued)

(b) Assessments, recoveries and other receipts (continued)

Effective January 1, 1993, all Government employees were covered by the Fund. The Government also reimburses the Fund for all claims costs associated with those injured workers, who are designated as workers employed by the Government under section 82 of the Act (note 15(a)).

(c) Recoveries from third parties

Since July 1, 2008, under section 51 of the 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 are 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.

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.

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.

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

4. Significant Accounting Policies (continued)

(d) Financial instruments (continued)

Other financial assets and liabilities

Accounts receivable are classified as loans and receivables. 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, 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 that have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: Techniques that use inputs which have a significant effect on the recorded fair value which 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 as of the date of the event or change in circumstances that cause the transfer. There were no such transfers between levels in 2022 (2021 – 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 net surplus or deficit.

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

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

4. Significant Accounting Policies (continued)

(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 – 75 years
Furniture and equipment	5 – 15 years
Computer equipment	5 – 7 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 are 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 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 – 25 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.

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

4. Significant Accounting Policies (continued)

(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.

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 are 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, 2022, 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.

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

4. Significant Accounting Policies (continued)

(i) Other provisions

Other provisions relate to certain claims that occurred prior to 1993, were transferred to the Fund, and were prepaid by the Government of Yukon. Provisions for these claims are determined annually and represent the actuarial present value of all future benefits expected to be paid. Claimants received fixed monthly payments that are indexed on an annual basis. The estimated duration over which payments will be made is set based on the life expectancy of the claimants.

Assumptions required to calculate other provisions include estimates of future inflation, interest rates and mortality rates. Experience adjustments are recognized in net surplus or deficit as incurred.

(j) 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 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 retirement benefit:

- 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.
- Pension 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.
- Retirement benefits includes annuity benefits for workers who have received compensation for the same disability for at least 24 months. An amount equal to 10 per cent 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.

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

4. Significant Accounting Policies (continued)

(k) 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 net surplus or deficit as incurred. These 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 multi-employer contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both 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.

(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. Surplus distributions that are approved but not issued are recorded as payable when an obligation exists, 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.

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

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 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, 2022.

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 not held for investing purposes 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 short-term investments must have a credit rating of at least R1L, and long-term investments require a rating of BBB or higher by the Dominion Bond Rating Service or the equivalent rating by Moody's, in order to be eligible for consideration as an investment. Diversification of credit risk is managed by limiting the exposure in a single private institution to 15% of the portfolio. The Board has stayed within these guidelines during the year.

Fixed Income Portfolio Credit Ratings

Ratings	AAA	AA	A	BBB	31-Dec-22	31-Dec-21
Fixed Income Securities	\$ 31,433	\$ 22,993	\$ 21,573	\$ 7,463	\$ 83,462	\$ 93,516

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 \$3,427,000 (2021 – \$3,187,000).

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

5. Risk Management (continued)

An estimated allowance for doubtful accounts has been recorded for accounts receivable that may not be collectible as at the reporting date. The amounts disclosed on the Statement of Financial Position are net of these allowances for doubtful accounts. At December 31, 2022, there were no accounts receivable that were past due but not impaired. The Board takes into consideration payment and collections history, and the current economic environment in which the Board 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.

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, 2022, approximately 86% (2021 – 91%) 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 has access to the Government of Yukon's overall line of credit facility with the Government's banker. This access provides the Fund with overdraft coverage of \$10,000,000 if needed. As of December 31, 2022, the Fund had used \$nil of the overdraft coverage (2021 – \$nil).

The Fund's accounts payable and accrued liabilities had a carrying value of \$4,134,000 as at December 31, 2022 (2021 – \$4,981,000) and were all payable within a year.

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

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

5. Risk Management (continued)

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 locations, and by limiting the concentration in any single entity to 15 per cent or less of the fair value of the investment fund (note 7).

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

	Target		Actual	
	Minimum	Maximum	31-Dec-22	31-Dec-21
Equities				
Canadian	0%	25%	18.1%	18.7%
United States	0%	25%	21.7%	22.0%
International	0%	25%	17.6%	18.6%
Fixed income				
Short-term investments	0%	10%	4.8%	2.5%
Bonds	35%	85%	37.8%	38.2%
			100.0%	100.0%

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

	31-Dec-22		31-Dec-21	
	-10%	-20%	-10%	-20%
Equities				
Canadian	\$ (4,005)	\$ (8,010)	\$ (4,579)	\$ (9,159)
United States	(4,796)	(9,592)	(5,386)	(10,771)
International	(3,878)	(7,755)	(4,561)	(9,121)
Total impact on operating results and equity	\$ (12,679)	\$ (25,357)	\$ (14,526)	\$ (29,051)

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.

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

5. Risk Management (continued)

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 on operating results and equity of a 50 and 100 basis point ("bp")¹ adverse change in the nominal interest rate on the fair value of the bond portfolio.

Positive bp change in nominal interest rate	31-Dec-22		31-Dec-21	
	+50bp	+100bp	+50bp	+100bp
Bonds	\$ (2,928)	\$ (5,856)	\$ (3,376)	\$ (6,752)
Total impact on operating results and equity	\$ (2,928)	\$ (5,856)	\$ (3,376)	\$ (6,752)

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

In the event the nominal interest rates decrease by 50 and 100 basis points, the impact will be equal and opposite to the above stated values.

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.

	Remaining term to maturity ¹				31-Dec-22	31-Dec-21
	< 1 year	1 - 5 years	5 - 10 years	> 10 years		
Bonds	\$ 8,595	\$ 28,348	\$ 20,495	\$ 26,024	\$ 83,462	\$ 93,516
Average effective yield	2.72%	3.72%	3.64%	4.12%	3.72%	1.83%

(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.

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, Hong Kong dollar and Swiss franc.

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

5. Risk Management (continued)

The Fund held foreign currency denominated holdings, at fair value, as follows:

Currency	31-Dec-22	31-Dec-21
US Dollar	\$ 52,918	\$ 58,241
Euro	\$ 16,788	\$ 15,956
British Pound	\$ 5,546	\$ 6,891
Japanese Yen	\$ 4,304	\$ 6,382
Swiss Franc	\$ 4,702	\$ 5,267
Hong Kong Dollar	\$ 2,215	\$ 2,960

The sensitivity analysis below presents the effect on operating results and equity of a 10 per cent appreciation in the Canadian dollar as compared to the US dollar, Euro, British pound, Japanese yen, Hong Kong dollar and Swiss franc.

Currency	31-Dec-22	31-Dec-21
US Dollar	\$ (4,811)	\$ (5,295)
Euro	\$ (1,526)	\$ (1,451)
British Pound	\$ (504)	\$ (626)
Japanese Yen	\$ (391)	\$ (580)
Swiss Franc	\$ (427)	\$ (479)
Hong Kong Dollar	\$ (201)	\$ (269)

In the event there is a 10 per cent depreciation in the Canadian dollar, the impact will be equal and opposite to the above stated values.

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

6. Accounts Receivable

	31-Dec-22	31-Dec-21
Assessments		
Assessed and due from employers	\$ 3,263	\$ 3,127
Allowance for doubtful accounts	(164)	(156)
	\$ 3,099	\$ 2,971
Other		
Other receivables and recoveries	\$ 356	\$ 243
Allowance for doubtful accounts	(28)	(27)
	\$ 328	\$ 216
	\$ 3,427	\$ 3,187

Included in other receivables and recoveries are amounts due from related parties, which are disclosed in note 15.

Reconciliation of allowance for doubtful accounts

The allowance for doubtful accounts is a provision for potential credit losses and amounts are subsequently written off once reasonable collection efforts have been made. The allowance details are as follows:

	31-Dec-22	31-Dec-21
Balance, beginning of year	\$ 183	\$ 159
Allowance written off	(30)	(21)
Recoveries and other adjustments	(12)	(4)
Current year provision	51	49
Balance, end of year	\$ 192	\$ 183

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

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.

	31-Dec-22 Fair Value	31-Dec-21 Fair Value
Fixed-term securities		
Federal bonds	\$ 28,359	\$ 34,300
Provincial bonds	21,779	22,806
Corporate bonds	33,156	36,410
Municipal bonds	168	-
	83,462	93,516
Equities		
Canadian	40,052	45,793
United States	47,961	53,856
International	38,777	45,606
	126,790	145,255
Other investments		
Short-term investments	10,697	5,701
Accrued interest receivable	589	493
	11,286	6,194
Investments, subtotal	221,538	244,965
Management fee accrual	(175)	(167)
Total investments	\$ 221,363	\$ 244,798

The total funds held by investment custodians is \$221,456 (2021 - \$245,403) which includes the investments above and cash on account of \$93 (2021 - \$605).

Net investment (loss) income consisted of the following:

	31-Dec-22	31-Dec-21
Interest	\$ 2,826	\$ 2,463
Dividends	2,610	2,665
Realized gains in the year	4,307	14,876
Unrealized gain (loss) in fair value in the year	(32,997)	7,755
Investment fees	(749)	(799)
Net investment (loss) income for the year	\$ (24,003)	\$ 26,960

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

7. Investments (continued)

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:

Level 1 classification reflects public daily market or quote pricing in active markets.

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.

Level 3 classification is used when a security has no public pricing and poor to non-existent liquidity.

As at December 31, 2022, the Fund held the following financial instruments measured at fair value:

	Level 1	Level 2	Level 3	Total
Other	\$ 412	\$ -	\$ -	\$ 412
Short-term investments	10,697	-	-	10,697
Bonds	10,465	72,998	-	83,463
Equities	55,240	-	-	55,240
Pooled funds	-	71,551	-	71,551
Total investments	\$ 76,814	\$ 144,549	\$ -	\$ 221,363

As at December 31, 2021, the Fund held the following financial instruments measured at fair value:

	Level 1	Level 2	Level 3	Total
Other	\$ 326	\$ -	\$ -	\$ 326
Short-term investments	5,701	-	-	5,701
Bonds	19,264	74,252	-	93,516
Equities	65,754	-	-	65,754
Pooled funds	-	79,501	-	79,501
Total investments	\$ 91,045	\$ 153,753	\$ -	\$ 244,798

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

8. Property and Equipment

A reconciliation of the changes in the carrying amount of property, plant and equipment is as follows:

	Land	Buildings & Fixtures	Furniture & Equipment	Computer & Equipment	Assets under Construction	Total
Cost						
At January 1, 2021	\$ 1,045	\$ 10,658	\$ 1,555	\$ 1,160	\$ 159	\$ 14,577
Additions	759	50	48	144	6	1,007
Disposals	-	-	(97)	(67)	-	(164)
Transfers	-	123	-	-	(123)	-
At December 31, 2021	\$ 1,804	\$ 10,831	\$ 1,506	\$ 1,237	\$ 42	\$ 15,420
Depreciation						
At January 1, 2021	\$ -	\$ 3,137	\$ 1,180	\$ 750	\$ -	\$ 5,067
Depreciation	-	265	106	139	-	510
Disposals	-	-	(82)	(67)	-	(149)
At December 31, 2021	\$ -	\$ 3,402	\$ 1,204	\$ 822	\$ -	\$ 5,428
Net Book Value						
At December 31, 2021	\$ 1,804	\$ 7,429	\$ 302	\$ 415	\$ 42	\$ 9,992
Cost						
At January 1, 2022	\$ 1,804	\$ 10,831	\$ 1,506	\$ 1,237	\$ 42	\$ 15,420
Additions	-	72	117	385	112	686
Disposals	-	-	(81)	(9)	-	(90)
At December 31, 2022	\$ 1,804	\$ 10,903	\$ 1,542	\$ 1,613	\$ 154	\$ 16,016
Depreciation						
At January 1, 2022	\$ -	\$ 3,402	\$ 1,204	\$ 822	\$ -	\$ 5,428
Depreciation	-	292	41	201	-	534
Disposals	-	-	(60)	(9)	-	(69)
At December 31, 2022	\$ -	\$ 3,694	\$ 1,185	\$ 1,014	\$ -	\$ 5,893
Net Book Value						
At December 31, 2022	\$ 1,804	\$ 7,209	\$ 357	\$ 599	\$ 154	\$ 10,123

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

9. Intangible Assets

A reconciliation of the changes in the carrying amount of intangible assets is as follows:

	Internal Software Development Costs ⁽¹⁾	Software Systems Under Development	Software Costs	Total
Cost				
At January 1, 2021	\$ 9,869	\$ 57	\$ 1,158	\$ 11,084
Additions	247	254	112	613
Transfers	-	(57)	57	-
At December 31, 2021	\$ 10,116	\$ 254	\$ 1,327	\$ 11,697
Amortization				
At January 1, 2021	\$ 6,860	\$ -	\$ 934	\$ 7,794
Depreciation	725	-	111	836
At December 31, 2021	\$ 7,585	\$ -	\$ 1,045	\$ 8,630
Net Book Value				
At December 31, 2021	\$ 2,531	\$ 254	\$ 282	\$ 3,067
Cost				
At January 1, 2022	\$ 10,116	\$ 254	\$ 1,327	\$ 11,697
Additions	372	-	76	448
Transfers	254	(254)	-	-
At December 31, 2022	\$ 10,742	\$ -	\$ 1,403	\$ 12,145
Amortization				
At January 1, 2022	\$ 7,585	\$ -	\$ 1,045	\$ 8,630
Depreciation	894	-	127	1,021
At December 31, 2022	\$ 8,479	\$ -	\$ 1,172	\$ 9,651
Net Book Value				
At December 31, 2022	\$ 2,263	\$ -	\$ 231	\$ 2,494

⁽¹⁾ Included in internal software development costs is the claims management system which has a net book value of \$1,039,000 (2021 – \$1,194,000) and a remaining amortization period of 3 years.

System research and analysis costs expensed in 2022 were \$15,542 (2021 – \$5,000).

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

10. Accounts Payable and Accrued Liabilities

	31-Dec-22	31-Dec-21
Assessments refundable	\$ 2,161	\$ 2,147
Other payables and accrued liabilities	1,973	2,834
	\$ 4,134	\$ 4,981

Included in other payables and accrued liabilities are amounts due to related parties, which are disclosed in note 15.

11. Other Provisions

Prior to 1993, the Government of Yukon did not pay assessment fees and prepaid certain claims. The amount prepaid was equal to the estimated lifetime cost of the claims. The claimants receive fixed monthly payments that are indexed on an annual basis. The estimated duration over which payments will be made is set based on the life expectancy of the claimants.

	31-Dec-22
Balance, beginning of year (note 19)	\$ 1,877
Amount charged against the provision during the year	100
Effect of discounting	(118)
Balance, end of year	\$ 1,859

12. Benefits Liability

	Medical Aid	Compensation	Pension	Retirement Benefit	Occupational Disease Provision	Total
Balance, January 1, 2022	\$26,679	\$ 84,538	\$ 35,286	\$ 9,572	\$ 21,323	\$ 177,398
Add claims costs incurred:						
Current year injuries	5,899	13,406	227	-	-	19,532
Prior years' injuries	(556)	(219)	2,081	-	70	1,376
	\$ 5,343	\$ 13,187	\$ 2,308	\$ -	\$ 70	\$ 20,908
Less claims payments made:						
Current year injuries	2,977	2,134	-	-	-	5,111
Claims management	446	320	-	-	-	766
Prior years' injuries	3,382	6,782	2,407	44	-	12,615
Claims management	507	936	361	-	-	1,804
	\$ 7,312	\$ 10,172	\$ 2,768	\$ 44	\$ -	\$ 20,296
Balance, December 31, 2022	\$24,710	\$ 87,553	\$ 34,826	\$ 9,528	\$ 21,393	\$ 178,010

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

12. Benefits Liability (continued)

	Medical Aid	Compensation	Pension (Note 19)	Retirement Benefit	Occupational Disease Provision	Total (Note 19)
Balance, January 1, 2021	\$ 27,401	\$ 80,022	\$ 34,000	\$ 9,651	\$ 17,660	\$ 168,734
Add claims costs incurred:						
Current year injuries	6,103	10,881	1,927	-	-	18,911
Prior years' injuries	(827)	2,985	1,942	-	-	4,100
Latent occupational disease provision	-	-	-	-	3,663	3,663
	\$ 5,276	\$ 13,866	\$ 3,869	\$ -	\$ 3,663	\$ 26,674
Less claims payments made:						
Current year injuries	2,731	1,549	-	-	-	4,280
Claims management	410	232	-	-	-	642
Prior years' injuries	2,484	6,663	2,246	79	-	11,472
Claims management	373	906	337	-	-	1,616
	\$ 5,998	\$ 9,350	\$ 2,583	\$ 79	\$ -	\$ 18,010
Balance, December 31, 2021	\$ 26,679	\$ 84,538	\$ 35,286	\$ 9,572	\$ 21,323	\$ 177,398

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

	31-Dec-22	31-Dec-21 (Note 19)
Balance, beginning of year	\$ 177,398	\$ 168,734
Add:		
Provision for current year's claims	13,655	13,989
Presumptive firefighter coverage expansion	-	3,159
Interest allocated	8,429	7,907
Experience gain	(7,056)	(3,303)
	\$ 15,028	\$ 21,752
Deduct:		
Payments for prior years' claims	\$ 14,416	\$ 13,088
Balance, end of year	\$ 178,010	\$ 177,398

(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.

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

12. Benefits Liability (continued)

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

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.

(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 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.

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

12. Benefits Liability (continued)

(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.

Expected timing of future payments for outstanding claims:

	31-Dec-22	31-Dec-21
Up to 1 year	5%	5%
Over 1 year and up to 5 years	17%	15%
Over 5 years and up to 10 years	19%	18%
Over 10 years	59%	62%
	100%	100%

(g) Actuarial assumptions and methods

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

	31-Dec-22	31-Dec-21
Discount rate for medical aid benefits - net ^(1,3,4)	0.90%	0.40%
Discount rate for compensation benefits - net ^(2,3,4)	3.40%	2.90%
Discount rate for survivor and other pension benefits - net ^(2,4)	3.40%	2.90%

(1) Net of discount rate attributable to inflation of 4.75% (2021 – 4.75%).

(2) Net of discount rate attributable to inflation of 2.25% (2021 – 2.25%).

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

(4) Net gross discount rate is 5.65% (2021 – 5.15%).

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.

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

12. Benefits Liability (continued)

(g) Actuarial assumptions and methods (continued)

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 affected by professional judgement 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, 2022. 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 occurred on or before December 31, 2022. 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 10 per cent benefit 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 2016 and prior, including future inflationary adjustments, for individuals still in receipt of a long-term loss of earnings award at December 31, 2022. 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 10 per cent benefit 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, 2022. 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.

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

12. Benefits Liability (continued)

(g) Actuarial assumptions and methods (continued)

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, 2022. These future awards are in respect of all claims arising from injuries which occurred on or before December 31, 2022. 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, 2022. A provision with respect to the 10 per cent benefit 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 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. This provision also covers the firefighter presumptive clause which included additional cancers as of December 2, 2021, the assent of the new Act and corresponding changes to the prior Act.

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, 2022 is 17% (December 31, 2021 – 15%) and is applied to all liability components with the exception of the retirement benefit 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 increase/(decrease) in the benefits liability for experience gains or losses as at December 31 were:

	31-Dec-22	31-Dec-21
Change in runoff factors	\$ (3,511)	\$ (585)
Update of inflation	1,125	1,035
Other changes in actuarial assumptions	(2,533)	290
Update discount rate	(6,277)	-
Update administration expenses	3,024	-
	\$ (8,172)	\$ 740
Unfavourable (favourable) claims experienced during year	666	(3,391)
	\$ (7,506)	\$ (2,651)
Actual versus expected claims paid on prior years' injuries	450	(652)
	\$ (7,056)	\$ (3,303)

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

12. Benefits Liability (continued)

(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 14% (2021 – 15%) 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-22		31-Dec-21	
	+1%	-1%	+1%	-1%
Increase (decrease) from change in net discount rate	\$ (13,204)	\$ 16,964	\$ (14,973)	\$ 17,761
Increase (decrease) from change in excess medical inflation rate	\$ 1,310	\$ (3,565)	\$ 4,018	\$ (2,598)

(i) Claims development

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

Estimate of Ultimate	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Claim Payments											
At end of accident year	24,513	24,789	19,067	18,600	21,347	25,921	21,877	21,869	28,488	27,090	
One year later	20,973	25,327	19,126	25,298	21,507	26,159	23,627	20,864	29,341		
Two years later	20,821	25,644	20,206	25,960	21,396	26,454	24,671	21,574			
Three years later	20,327	25,866	17,997	25,536	21,396	27,147	25,051				
Four years later	20,675	29,726	17,221	25,446	21,578	27,188					
Five years later	18,187	30,928	16,992	26,207	24,348						
Six years later	16,250	32,213	18,297	29,871							
Seven years later	15,850	30,324	17,981								
Eight years later	16,007	29,598									
Nine years later	16,009										
Cumulative Payments											
At end of accident year	3,438	3,757	3,801	3,879	4,129	4,094	3,821	3,319	4,226	4,827	
One year later	5,113	6,590	6,081	6,673	6,654	6,662	6,323	5,256	7,127		
Two years later	5,910	7,890	6,773	7,856	7,717	7,959	7,614	6,107			
Three years later	6,394	9,018	7,225	8,478	8,332	8,644	8,164				
Four years later	6,719	9,870	7,590	9,340	8,843	9,364					
Five years later	6,840	10,623	7,899	9,971	9,451						
Six years later	7,055	11,173	8,205	10,468							
Seven years later	7,246	11,708	8,481								
Eight years later	7,443	12,211									
Nine years later	7,649										
Estimate of Future Payments	8,360	17,387	9,500	19,403	14,897	17,823	16,886	15,467	22,214	22,263	164,201
2012 and prior claims											93,485
Effect of Discounting											(121,735)
Effect of Admin Expenses											20,665
Effect of Occupational Disease Liability											21,394
Balance Sheet Liability											\$ 178,010

During the year ended December 31, 2022, 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.

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

13. Employee Benefits

	31-Dec-22	31-Dec-21
Short-term employee benefits	\$ 744	\$ 798
Other long-term employee benefits (a)	1,159	1,200
Post-employment benefits (b)	1,782	1,929
	\$ 3,685	\$ 3,927

Short-term benefits included in the above amounts are expected to be paid within the next 12 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:

	31-Dec-22	31-Dec-21
Long service vacation benefits	\$ 44	\$ 50
Accumulating sick and special leave benefits	1,115	1,150
	\$ 1,159	\$ 1,200

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

	31-Dec-22	31-Dec-21
Benefits, beginning of year	\$ 1,200	\$ 1,221
Current service cost	95	100
Payments made during the year	(50)	(71)
Interest cost	32	23
Other changes	(79)	(71)
Actuarial gain	(39)	(2)
Benefits, end of year	\$ 1,159	\$ 1,200

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

13. Employee Benefits (continued)

(a) Other long-term employee benefits (continued)

Actuarial gain remeasurements:

	31-Dec-22	31-Dec-21
Effect of changes in financial assumptions	\$ (39)	\$ (56)
Effect of changes in demographic assumptions	-	54
Remeasurements gain in surplus or deficit	\$ (39)	\$ (2)

(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.

Beginning January 1, 2020, management employees are no longer eligible to receive any further accruals related to severance payable on resignation or retirement. Severance entitlements accrued up to December 31, 2019, are payable upon resignation or retirement.

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

	31-Dec-22	31-Dec-21
Benefits, beginning of year	\$ 1,929	\$ 2,010
Current service cost	97	108
Payments made during the year	(382)	(230)
Interest cost	48	38
Other changes	172	94
Actuarial gain	(82)	(91)
Benefits, end of year	\$ 1,782	\$ 1,929

Actuarial gain remeasurements:

	31-Dec-22	31-Dec-21
Effect of changes in financial assumptions	\$ (82)	\$ (91)
Remeasurement gain in OCI	\$ (82)	\$ (91)

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

13. Employee Benefits (continued)

(b) Post-employment Benefits (continued)

(i) Retirement and Severance Benefit (continued)

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 5.00% (2021 – 2.60%) 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 3.0% for 2022 (2021 - 2.0%) and 2.25% for 2023 and beyond (2021 - 2% for 2022 and beyond) based on management's best estimate.

The expected Fund contributions for retirement and severance for the next year are \$355,000 (2021 – \$461,000). The weighted average duration of the retirement and severance benefit is 7.1 years (2021 – 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-22		31-Dec-21	
	+1%	-1%	+1%	-1%
Increase (decrease) from change in discount rate	\$ (103)	\$ 116	\$ (116)	\$ 132
Increase (decrease) from change in wage inflation rate	\$ 117	\$ (105)	\$ 132	\$ (118)

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.

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

13. Employee Benefits (continued)

(b) Post-employment Benefits (continued)

(iii) Public Service Pension Plan

Substantially all of the employees of the Board are covered by the Public Service Pension Plan (the "Plan"), a multi-employer contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both 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	31-Dec-22		31-Dec-21	
	Up to Maximum	Above Maximum	Up to Maximum	Above Maximum
For employees eligible before January 1, 2013	1.02	5.91	1.01	3.59
For employees eligible after January 1, 2013	1.00	5.91	1.00	3.59
Maximum salary limit	\$ 191,300	No limit	\$ 181,600	No limit

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 per cent 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:

	31-Dec-22	31-Dec-21
Employees' contributions	\$ 801	\$ 849
Fund contributions	\$ 812	\$ 853

The expected contributions to the Plan for the next year are \$836,000 (2021 – \$734,000) employee contributions and \$879,000 (2021 – \$780,000) 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 \$1,143,000 in 2022 (2021 – \$1,143,000).

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

14. Capital Management, Surplus Distributions and Reserves

(a) Capital management

The *Workers' Safety and 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, 2022, the Funding Ratio was 131% (2021 – 143%). 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 levels. The Fund is considered fully funded when there are sufficient funds for the payment of all present and future compensation, and other liabilities, including the cost of administration.

(b) Surplus Distributions

In 2022, no surplus distribution was approved (2021 - no surplus distribution). In 2022 and 2021, no recoveries occurred related to previously approved surplus distributions.

Reconciliation of surplus distributions payable:

	31-Dec-22	31-Dec-21
Surplus distributions payable, beginning of year	\$ 22	\$ 10,220
Amounts paid for prior year surplus distributions	-	(10,166)
Prior year surplus distributions adjustments	(22)	(32)
Surplus distributions payable, end of year	\$ -	\$ 22

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

14. Capital Management, Surplus Distributions and Reserves (continued)

(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 10 per cent of the benefits liability. In 2021, the benefits liability was \$178,010,000 (2021 – \$177,398,000 - note 19). The target was \$17,801,000 as at December 31, 2022 (2021 – \$17,739,000 - note 19). The operating range for this reserve is determined as the target-level balance plus or minus three and a half per cent of the benefits liability. At December 31, 2022, the Stabilization Reserve had a balance of \$31,799,000 (2021 – \$53,224,000 - note 19).

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 5 years from the year in which the deficiency or surplus arose.

(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. In addition, latent occupational disease costs may be charged to this reserve. No such charges occurred in 2022 and 2021.

In 2022, the target level for this reserve was \$27,233,000 (2021 – \$26,933,000 - note 19), which has been set at 100 times the maximum wage rate plus 10 per cent of the benefits liability and is calculated annually upon completion of the actuarial valuation of the benefits liability. This reserve is limited to its target level, and 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. Funds in excess of the target level are transferred to the Stabilization Reserve, with \$nil funds transferred in 2022 and 2021.

At December 31, 2022, the Adverse Events Reserve had a balance of \$27,233,000 (2021 – \$26,933,000 - note 19).

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

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 its departments, agencies and corporations. The Board enters into transactions with the Government and its related entities in the normal course of business, and the transactions are recorded at fair value.

Included in the Fund's accounts receivable and accounts payable as of December 31, 2022 are amounts owing to and from the Government and its related entities as follows:

	31-Dec-22	31-Dec-21
Due to the Government and its related entities	\$ (1,049)	\$ (2,278)
Due from the Government and its related entities	716	744
Net amount due	\$ (333)	\$ (1,534)

During 2022, the Compensation Fund paid the Government and its related entities \$398,000 (2021 – \$358,000) for computer, office supplies, payroll processing, recruitment and training. The Fund also reimbursed the Government for payroll costs of \$10,194,000 (2021 – \$10,938,000).

Revenues and recoveries from the Government and its related entities for the year ended December 31, 2022, totalled \$10,669,000 (2021 – \$10,205,000), including assessment premiums of \$9,859,000 (2021 – \$9,270,000), the Mine Safety Program Grant \$330,000 (2021 – \$330,000), and reimbursements for claims costs received from the Government of \$343,000 (2021 – \$326,000) (note 4(b)).

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 2022, the Fund reimbursed the Government \$361,000 (2021 – \$330,000) 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:

	31-Dec-22	31-Dec-21
Short-term employee compensation and benefits	\$ 1,473	\$ 1,452
Other long-term employee benefits	-	2
Post employment benefits	174	179
Total remuneration	\$ 1,647	\$ 1,633

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

15. Related Party Transactions (continued)

(b) Key management personnel (continued)

Contributions made to the Public Service Pension Plan by the Fund for key management personnel in 2022 were \$139,000 (2021 – \$132,000) and are included in post-employment benefits.

As at the reporting date, there were no business relationships, outstanding amounts or transactions other than compensation between the Fund and its key management personnel.

16. Commitments

As of December 31, 2022, the Fund had entered into the following contractual commitments for the next five years:

	Contribution agreements	Computer systems support	Professional services	Building maintenance	Other	Total
2023	\$ 1,456	\$ 72	\$ 432	\$ 123	\$ 68	\$ 2,151
2024	617	-	57	41	56	771
2025	629	-	-	10	11	650
2026	642	-	-	-	-	642
2027	655	-	-	-	-	655
Total	\$ 3,999	\$ 72	\$ 489	\$ 174	\$ 135	\$ 4,869

17. Administration Expenses

	31-Dec-22	31-Dec-21
Salaries and benefits	\$ 9,767	\$ 10,456
Consulting and professional	1,255	1,295
Amortization - intangible assets	1,021	836
Computer systems support and licences	795	815
Depreciation - property and equipment	534	510
Building maintenance	507	460
Statutory funding obligations	552	446
General administration	332	329
Communications	206	225
Automobile and travel	97	88
Board expenses	83	81
Staff and recruitment	69	73
Printing and publications	46	70
Supplies and stationery	45	38
System development analysis expense	16	5
Furniture and equipment	9	4
	15,334	15,731
Less: claims administration expense transferred to claims expense (note 12)	(2,586)	(2,273)
	\$ 12,748	\$ 13,458

Compensation Fund

Notes to Financial Statements

December 31, 2022 (tabular amounts in thousands of Canadian dollars)

18. Contingencies

Due to the nature of the Board's operations, various legal matters are pending. In the opinion of management, these matters are not expected to have a material effect on the Fund's financial position or results of operations. These various legal matters include certain confidentiality clauses; to avoid prejudicing these claims, no further information is disclosed.

19. Comparative information

Comparative figures for certain financial statement line items have been reclassified to conform to the current year's presentation. The changes made relate to other provisions (note 4(i) and 11) for certain claims prepaid by the Government of Yukon. The estimated liability for these claims has been disaggregated to provide better information regarding this liability to the Fund.

The financial statement line items impacted by the reclassification are as follows:

	Previously reported 2021 \$	Reclassification \$	After reclassification 2021 \$
Statement of Financial Position			
Other provisions	-	1,877	1,877
Benefits liability	179,275	(1,877)	177,398
Statement of Operations and Comprehensive Income			
Claims expense	26,804	(130)	26,674
Other provisions	-	130	130
Statement of Changes in Funded Position (Equity)			
Adverse Events Reserve	27,120	(187)	26,933
Stabilization Reserve	53,037	187	53,224

As a result of the reclassifications to financial statement line items, other information within the notes to financial statements has also been changed (notes 11, 12, and 14(c)).