

## GOVERNMENT OF YUKON

### **Financial Statement Discussion and Analysis for the year ended March 31, 2010**

#### **Introduction**

The Public Accounts is a major accountability report of the Government of Yukon (the Government). The purpose of the financial statement discussion and analysis is to expand upon and explain information contained in the consolidated financial statements, which are presented in Part Two of the Public Accounts. Responsibility for the preparation of this discussion and analysis rests with management of the Department of Finance.

#### **2009-10 Highlights**

- The Government spent \$131 million for the development of tangible capital assets in 2009-10, which was an 85% increase from the previous year. The Government received \$58 million from other governments to offset the cost of this development, the major contributor being the Government of Canada. The Government of Yukon invested \$73 million of its own resources.
- In 2009-10, the Government's revenues increased by \$62 million to \$906 million, a 7% increase from the previous year, largely due to an increase in the Formula Financing transfer payments from the Government of Canada.
- Expenses increased by \$87 million, to \$924 million, which was an increase of 10% from the previous year. The largest increase was in the health and social services sector, which increased by \$26 million or 11% from the previous year. This increase was primarily due to the increase in health care expenses. Health and social services related expenses of \$264 million accounted for 29% of the Government's total expenses.
- The Government reported an annual deficit of \$16 million in 2009-10. Of the \$34 million variance between the budgeted surplus of \$18 million and the actual deficit of \$16 million, \$21 million was due to an accounting policy change for the revenue recognition of the Building Canada Plan funding, which was implemented after the 2009-10 budget was approved by the Legislative Assembly. As of the 2008-09 financial statements, based on the recommendation by the Office of the Auditor General of Canada, the Government changed its accounting policy; the Government now defers the funding received under this infrastructure development program, and recognizes revenues to match the related expenses. Another large variance factor was health and social services expenses, which were \$19 million more than budgeted.
- The Government continues to have a net financial resources position, with a balance at March 31, 2010 of \$217 million. To have net financial resources means a government has more financial assets than liabilities readily available to finance its future operations. The Yukon is one of two Canadian jurisdictions (along with Alberta) that have net financial resources, rather than net debt.
- The preliminary gross domestic product (GDP) figures for the calendar year 2009 indicate Yukon's GDP increased by 1.4%. Except for Prince Edward Island which saw an increase of 0.6%, all other Canadian jurisdictions experienced reductions anywhere from 0.2% to 10%. Yukon's unemployment rate of 6.9% as of December 2009 continues to be below the Canadian average of 8.2%.

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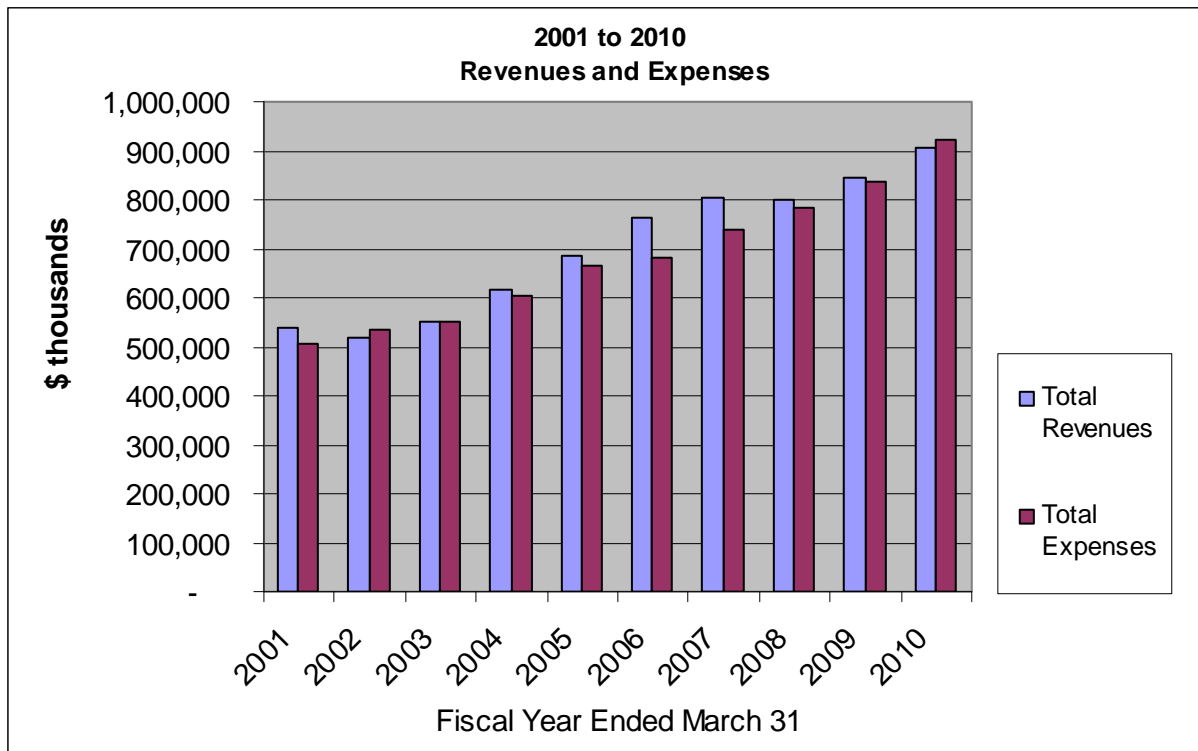
**Surplus/Deficit for the Year**

The Government reported an annual deficit of \$16 million in 2009-10.

The Government's annual surplus or deficit resulting from its operations is dependent on various factors. Two of the most significant factors are:

- total revenues, of which the Formula Financing grant from the Government of Canada makes up the largest share, less:
- direct government spending and operating transfers to individuals and other public organizations, such as municipalities.

The chart below illustrates the trend between revenues and spending over the last 10 years. The amounts are taken directly from the respective year's Public Accounts, without reflecting changes in accounting policies over the years.



Reporting an annual surplus or deficit is affected by accounting policies used to calculate revenues and expenses. During the ten years reflected above, there were two significant accounting policy changes. Since 2004-05, the Government has used full accrual accounting, whereby expenditures for tangible capital asset acquisitions and developments are capitalized and, therefore, not reported as expenses. Instead, the cost of the asset is allocated over its estimated useful life and a portion is reported as an amortization expense. Since 2005-06, Yukon College and the Yukon Hospital Corporation's financial statements have been included as part of the Government's reporting entity.

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#### **Net Financial Resources and Accumulated Surplus**

At March 31, 2010, the Government's financial assets exceeded its liabilities, resulting in net financial resources of \$217 million (\$281 million at March 31, 2009). This important indicator shows that the Government has financial resources on hand to finance future operations and that the Government is not relying on future revenues to provide current services. An examination of published Public Accounts indicate that, at the end of the 2010 fiscal year, Yukon and Alberta were the only two Canadian jurisdictions that had net financial resources, rather than net debt. The reduction of \$64 million in net financial resources from the previous year-end was mainly due to large expenditures incurred for the construction of buildings and infrastructure.

During the 2009-10 fiscal year, the Government expended \$131 million (85% over the previous year's amount of \$71 million) for the construction of buildings and other infrastructure. These capital investments were funded in part by the federal government's economic stimulus funding programs such as the Building Canada Plan and Canada Economic Action Plan; however, in large part, the Government invested its own resources on these projects. The Government received capital funding of \$58 million in 2009-10 and \$42 million in 2008-09.

Accumulated surplus consists of net financial resources and non-financial assets such as tangible capital assets. The accumulated surplus of the Government at March 31, 2010 was \$720 million (\$736 million at March 31, 2009).

#### **Revenues**

In 2009-10, the Government's total revenues increased by 7% (\$62 million), to \$906 million, from the previous year.

The Government receives the majority of its revenues from the Government of Canada as a Formula Financing grant. In 2009-10, the Government received \$612 million as a Formula Financing grant. This was an increase of \$48 million or 9% from the previous year.

In addition to the Formula Financing grant, the Government receives transfer payments from the Government of Canada as well as other parties for various purposes such as health and social programs and infrastructure development.

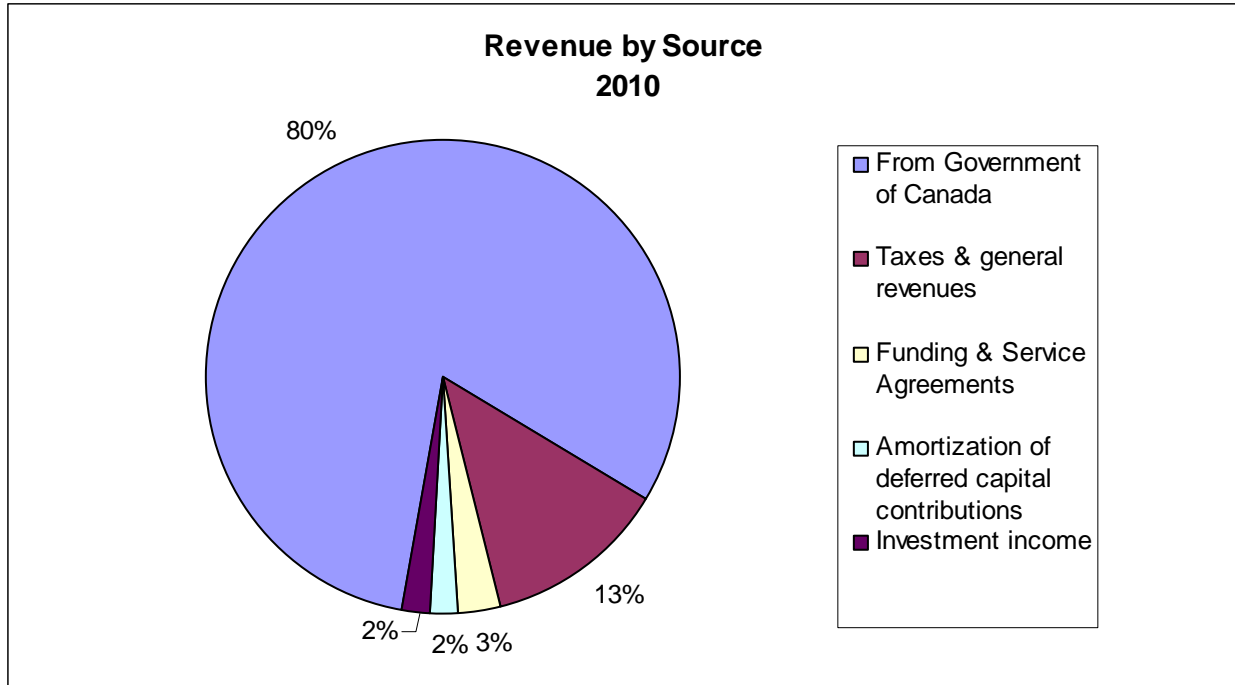
Taxes and general revenues include corporate income, personal income, tobacco, liquor, fuel, insurance premium and property taxes, oil and gas resource revenues and licences and fees such as motor vehicle licences and business/professional fees.

The income from investment in government business enterprises of \$17 million (\$7 million in the previous year) reported in the financial statements represents the net results of government corporations that are categorized as government business enterprises. Government of Yukon business enterprises include the Yukon Liquor Corporation and the Yukon Development Corporation, which reports its results consolidating the Yukon Energy Corporation. The \$10 million increase from previous year was due to Yukon Development Corporation's higher income.

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Revenue by source is illustrated in the chart below:



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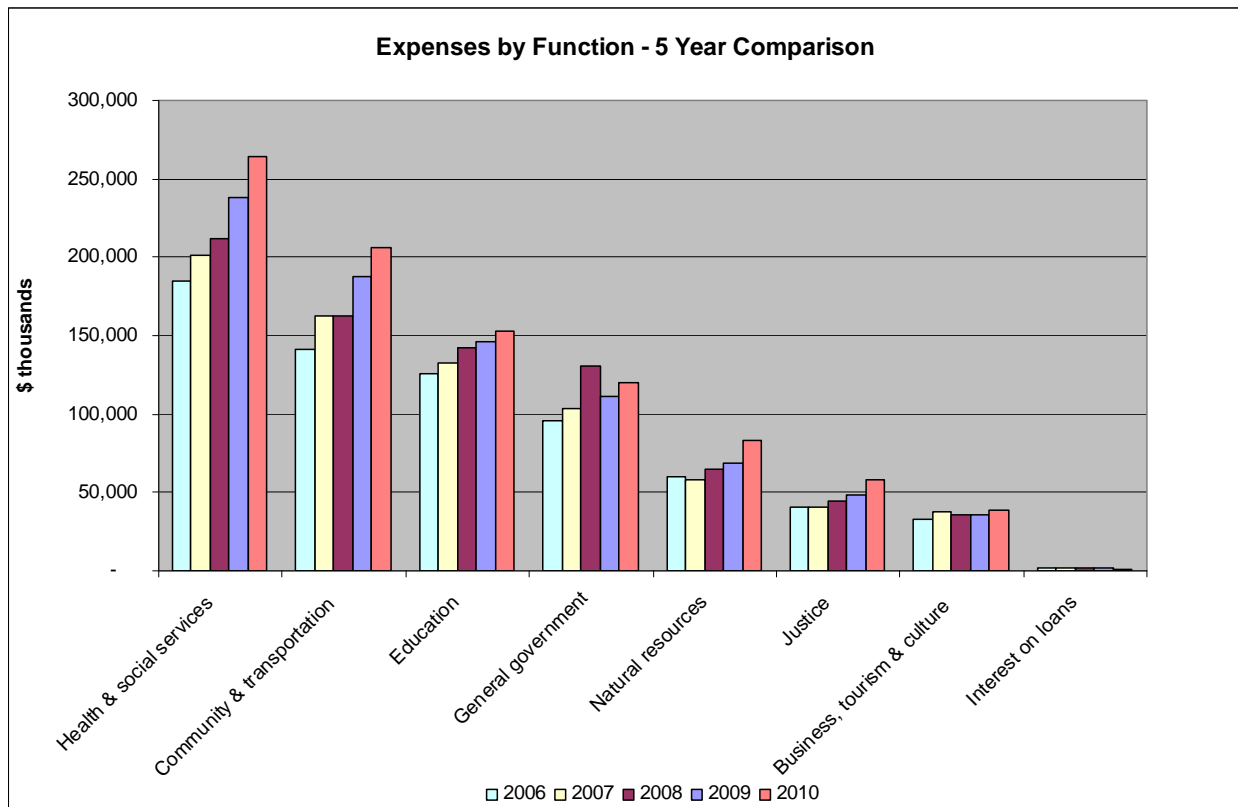
**Expenses**

In 2009-10, the ratio of expenses by function remained consistent with the previous year, with health and social services, community and transportation, and education comprising 67% of total expenses (68% in 2008-09).

Overall, expenses increased by 10% (\$87 million), to \$924 million, from the previous year. The largest increase was in the health and social services function, with an increase of \$26 million, followed by an \$18 million increase in community and transportation. The increase in health and social services expenses was largely due to increased health care costs such as physicians' claims, out-of-territory medical costs and hospital expenses. The increase in community and transportation was largely due to an increase in capital transfers to other organizations, especially local governments, under the federal economic stimulus initiative.

As for the type of expenses, the highest percentage was wages and benefits (45%), followed by procurement of goods and services (34%), transfer payments (16%) and amortization expenses (5%). This ratio is consistent with the previous year.

The chart below illustrates 5-year comparison of expenses by function. Expenses in the health and social services function have increased more than other functions in the last two years. The majority of these increases are in health services.



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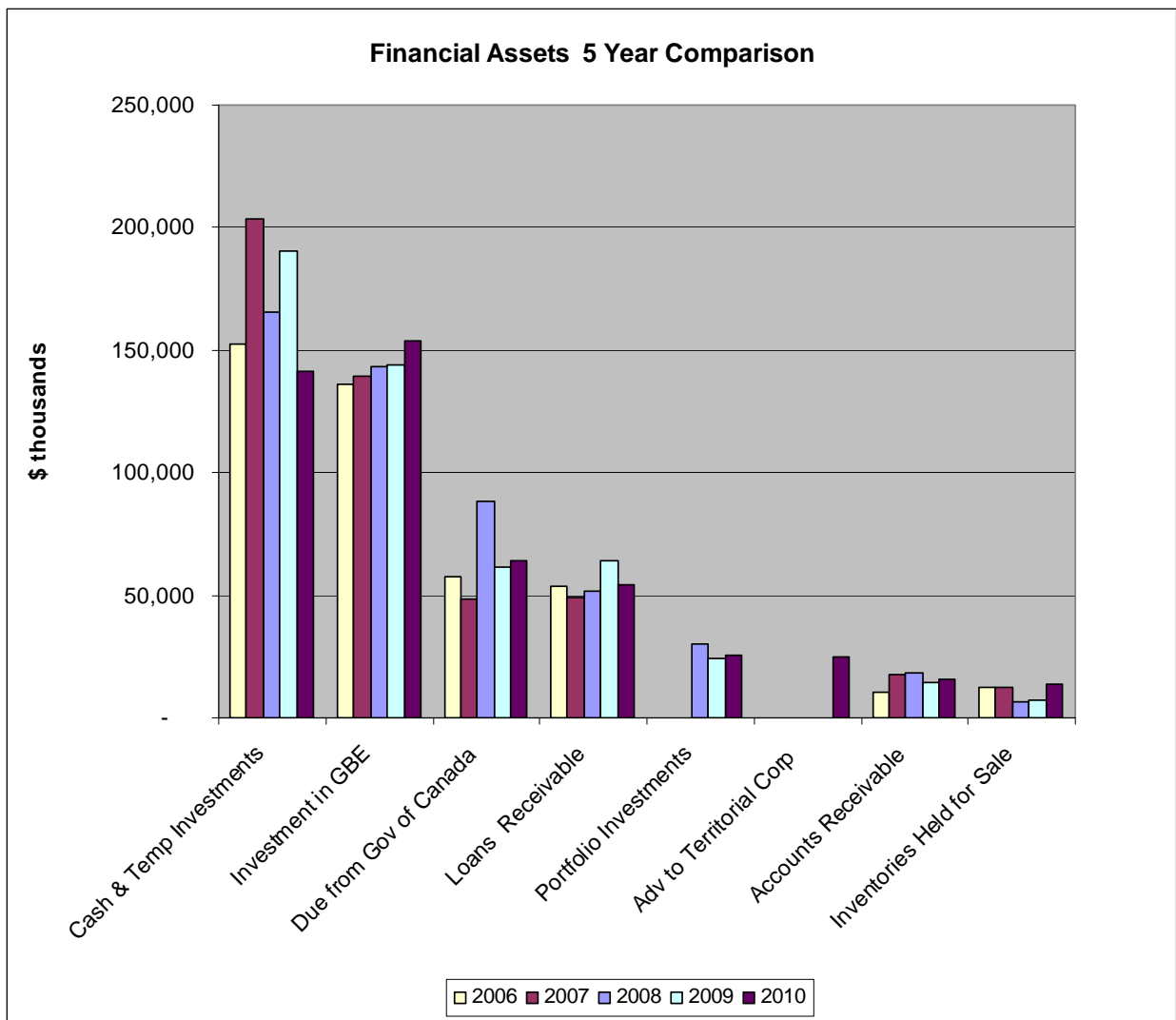
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**Assets**

**Financial Assets**

Financial assets consist of assets available to discharge existing liabilities or to finance future activities. At March 31, 2010, total financial assets were \$493 million, a decrease of \$12 million or 2% from the previous year. The largest decrease was in cash, cash equivalents and temporary investments, which decreased by \$49 million. This decrease was partially offset by an increase in advances to Territorial corporations of \$25 million and an increase of \$10 million in investment in government business enterprises (GBE). Cash and cash equivalents and temporary investments of \$142 million account for 29% of the total financial assets.

Financial assets by type as a five-year comparison are shown below:



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Major categories of the Government's financial assets are described below.

#### Cash and cash equivalents and temporary investments

Cash and cash equivalents are comprised of bank balances, short-term investments that mature less than 90 days from the date of purchase, funds held in trust accounts on behalf of the Government and cash on hand. Temporary investments are investments with maturity dates longer than 90 days, at the time of purchase, but less than one year. Temporary investments consist of bankers' acceptances, provincial treasury bills and promissory notes and Government of Canada treasury bills. These financial assets are highly liquid and readily available to discharge Government's financial obligations.

At March 31, 2010, the Government's cash and cash equivalents and temporary investments were \$142 million.

#### Investment in government business enterprises

Investment in government business enterprises, which are self-sustainable government corporations, represent equities of the Yukon Development Corporation and the Yukon Liquor Corporation. The Yukon Development Corporation is shown as an investment value of \$152 million at March 31, 2010 (2009 - \$142 million). The Yukon Energy Corporation, which supplies and sells power in the Yukon, is a wholly-owned subsidiary of the Yukon Development Corporation.

In February 2009, the Yukon Energy Corporation filed an application for a project to expand the existing Mayo hydro plant (Mayo B project) to the Yukon Environmental and Socio-Economic Assessment Board. The Mayo B project involves building a new powerhouse about three kilometres downstream from the existing powerhouse with the expectation of doubling the amount of energy that can be generated from the Mayo River.

In May 2009, the Government of Canada announced it would provide up to \$71 million for the Mayo B project and for the completion of the Carmacks-Stewart transmission line under its newly announced \$1 billion Green Infrastructure Fund. The Government also announced its support for this project. The total estimated cost of the Mayo B project and the Carmacks-Stewart transmission line is \$160 million.

By June 2010, the Yukon Energy Corporation had received all the permits necessary and started construction of Mayo B. In the same month, the Yukon Development Corporation issued 30-year bonds in the amount of \$100 million in order to finance Mayo B, the Carmacks-Stewart transmission line project and other miscellaneous projects.

#### Due from Government of Canada

At March 31, 2010, the Government had receivables from the Government of Canada in the amount of \$64 million, 90% of which were outstanding claims on cost sharing agreements and projects delivered on behalf of the federal government.

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#### Loans receivable

The Government had loans receivable of \$54 million, of which 72% or \$39 million were Yukon Housing Corporation mortgages receivable, followed by 11% or \$6 million in land-sale related loans receivable that are also administered by the Yukon Housing Corporation. The \$54 million receivable is net of allowance for doubtful accounts of \$2 million. The Government does not expect any significant losses resulting from doubtful accounts.

#### Portfolio investments

On March 31, 2010 the Government held investments in Floating Rate Notes (FRNs) with a carrying value of \$26 million as a result of restructuring process related to previous investments in asset-backed commercial paper. Upon completion of the restructuring process on January 21, 2009, the Government received FRNs with a face value of \$36 million of various classes issued by a trust referred to as the Master Asset Vehicle II.

All FRNs are expected to be repaid by January 22, 2017. Fair value of FRNs held by the Government is estimated at \$29 million as of March 31, 2010. Further details of these investments are described in notes 7 and 17 to the consolidated financial statements.

#### **Non-financial Assets**

Non-financial assets are assets that do not normally provide resources to discharge existing liabilities, but instead are normally used to deliver future government services or may be consumed in the normal course of operations. Non-financial assets include tangible capital assets, inventories, and prepaid expenses, of which the largest category is tangible capital assets.

#### Tangible capital assets

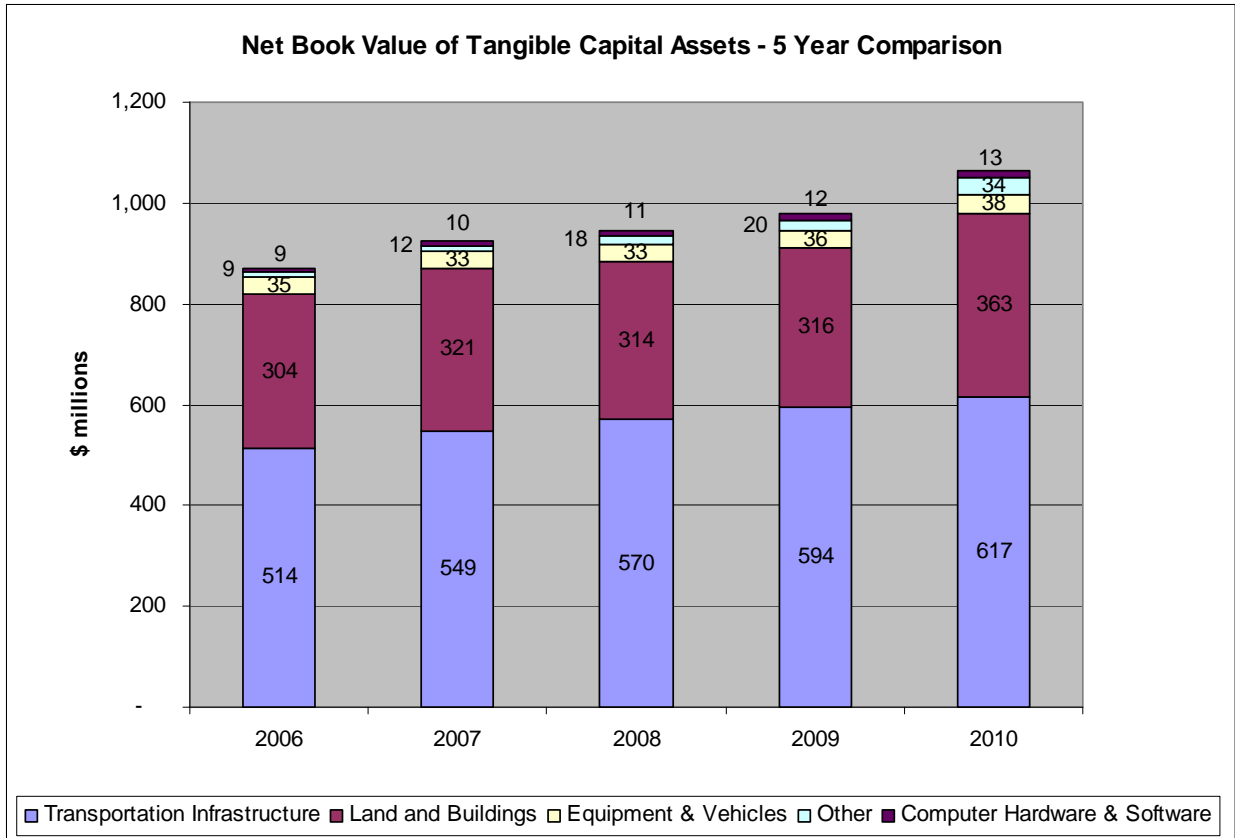
At March 31, 2010, the Government owned and used tangible capital assets valued at \$1.1 billion for its program delivery, an increase of \$87 million from the previous year value of \$978 million. Of those assets, \$572 million or 54% are either funded by other governments or transferred from the Government of Canada as part of the transfer of various program responsibilities.



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Tangible capital assets by type as a 5-year comparison are shown below:



Transportation infrastructure comprises highways, bridges and airport runways. In accordance with the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, the value of transferred Crown land is not reported as tangible capital assets.

In 2009-10, the Government made the following investment in tangible capital assets:

	(millions)
Opening balance at April 1, 2009	\$ 978
Investment during the year	131
Less: Disposal and write-downs	(1)
Amortization	(43)
<b>Balance at March 31, 2010</b>	<b>\$1,065</b>

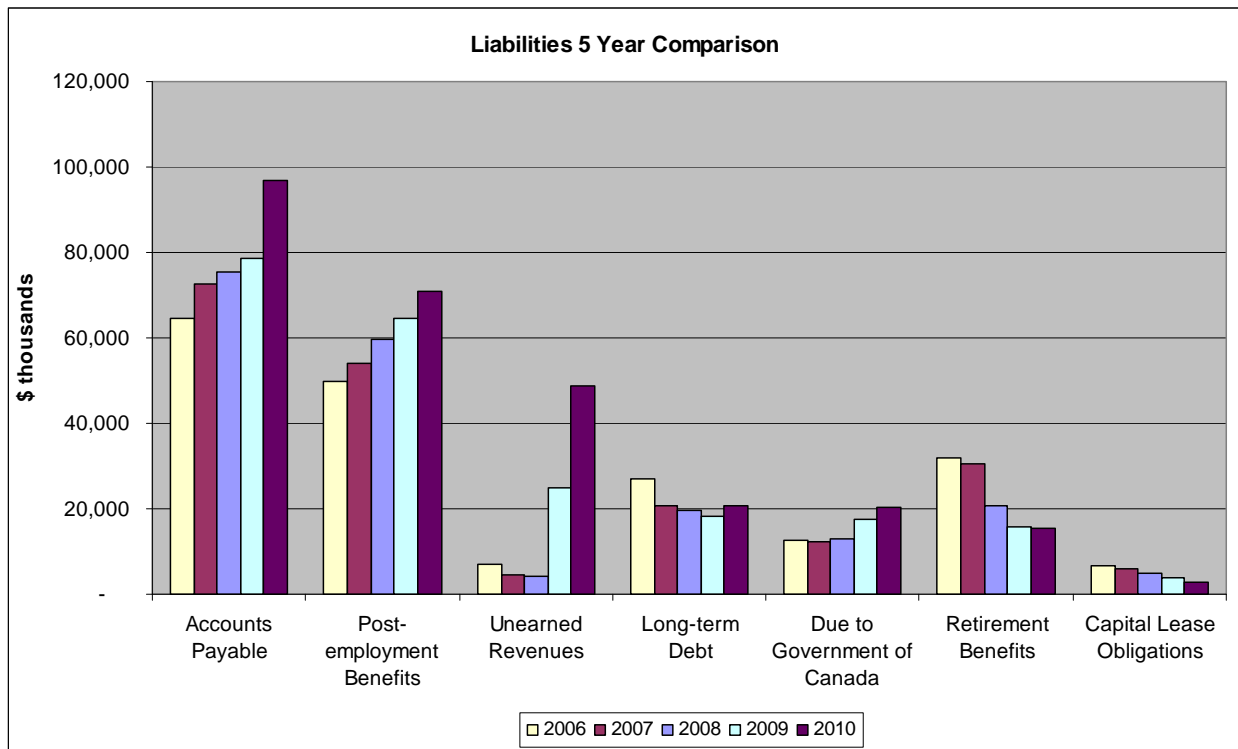
Of the \$131 million invested in tangible capital assets during the year, \$58 million was funded by other governments. The largest capital funding the Government received in the fiscal year 2009-10 was from the U.S. Government under the Shakwak Agreement for reconstruction of the Alaska Highway. In 2009-10, the Government received \$21 million (\$30 million in 2008-09) pursuant to the Shakwak Agreement.

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**Liabilities**

The liabilities of the Government at March 31, 2010 totaled \$276 million (\$224 million at March 31, 2009), which is equivalent to 56% of the financial assets of the Government. A 5-year comparison of the Government’s liabilities by category is illustrated below:



Major categories of the Government’s liabilities are described as follows:

**Accounts payable**

Accounts payable includes accrued liabilities that were estimated prior to the receipt of actual invoices. The total accounts payable and accrued liabilities increased by 23% from the previous year total of \$79 million to \$97 million at March 31, 2010. The increase is largely due to the increased infrastructure development in the Yukon and an associated increase in outstanding payables for these activities.

**Post-employment benefits**

The Government’s second largest liability, after accounts payable, is post-employment benefits. Post-employment benefits are provided to employees after employment but before retirement. These benefits consist of severance pay, sick leave and vacation leave benefits. Following the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, the Government uses an actuary to estimate its post-employment benefit liability. The post-employment benefit liability at March 31, 2010 was \$71 million (\$65 million at March 31, 2009).

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Unearned revenue

Unearned revenues represent cash that was received by the Government for which no service nor goods were provided at year-end. Of the total unearned revenue of \$49 million reported as of March 31, 2010 (\$25 million at March 31, 2009), 61% or \$30 million were unspent monies received under the Building Canada Plan from the Government of Canada and 22% or \$11 million represented monies yet to be spent for the affordable housing initiative under the Canada Economic Action Plan.

Long-term debt

The largest portion of the \$21 million reported as long-term debt are mortgages payable by the Yukon Housing Corporation totaling \$13 million. \$4 million represents the subscribed portion of a demand construction facility loan of up to \$17 million used by the Yukon Hospital Corporation for financing the costs of the new staff residence and medical services facility in Whitehorse.

Subsequent to the financial statement date, in June 2010, the Government provided its consent for the Yukon Hospital Corporation to borrow up to \$50 million for the construction of the Watson Lake Hospital and the Dawson City Hospital. Construction of these new hospital buildings is expected to be completed by 2012.

Due to Government of Canada

50% of the \$20 million payable to the Government of Canada represents accounts payable for the policing services provided by RCMP in the Yukon. The Government annually pays approximately \$20 million to RCMP for these services. The remainder of the amount due to the Government of Canada relates to Public Service Pension Plan contributions and payroll deductions payable.

Retirement benefits

The retirement benefit liability of \$16 million at March 31, 2010 represents the Government's extended health benefits that are provided to retired employees as well as various pension plan liabilities. The retirement benefit liabilities include those pension plan liabilities for the Members of Legislative Assembly, territorial court judges and employees of Yukon College and the Yukon Hospital Corporation. As the Yukon government employees participate in the Public Service Pension Plan administered by the Government of Canada, there is no pension liability for Government of Yukon employees. The Government contributed \$30 million to the Public Service Pension Plan in 2009-10 as the employer's share (\$29 million in 2008-09).

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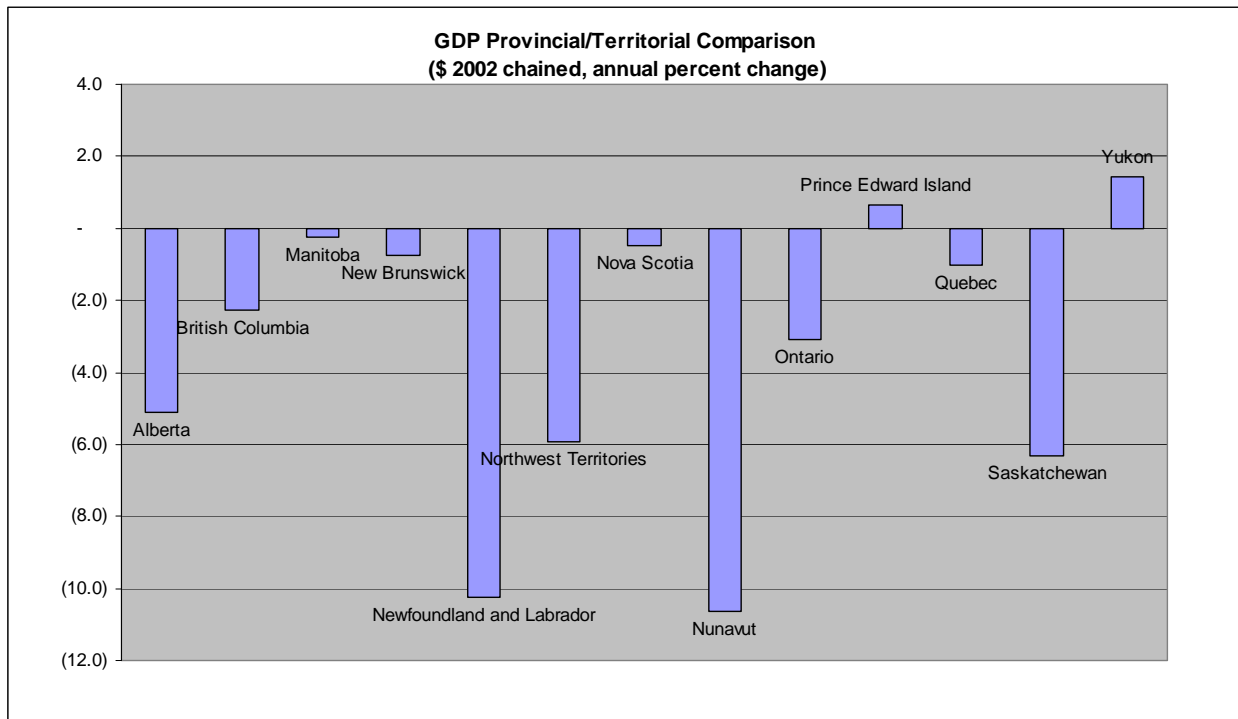
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**Indicators of Financial and Economic Conditions**

**Real Gross Domestic Product (GDP) in Calendar Year 2009**

At the end of 2009, Yukon and Prince Edward Island were the only two Canadian jurisdictions that experienced growth in GDP.

The bar graph bellows shows a comparison of GDP change from calendar year 2008 to 2009 across the Canadian jurisdictions.



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Unemployment rate (Calendar Year 2009)

Yukon's unemployment rate was 6.9% in December 2009. Yukon's unemployment rate continues to be below the national average of 8.2%. At the time of publishing, latest available rates are for the month of August 2010. Yukon's rate increased slightly to 7.2% which is still below the national average of 8.5%.

The graph below shows a 5-year comparison of Yukon's unemployment rate against the Canadian average. Yukon's unemployment rate was below Canadian average throughout the 5 years.

