

**PART ONE**  
**FINANCIAL STATEMENT DISCUSSION AND ANALYSIS**

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## GOVERNMENT OF YUKON

### **Financial Statement Discussion and Analysis for the year ended March 31, 2011**

#### **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.

#### **2010-11 Highlights**

- The Government reported an annual surplus of \$2 million compared to the budgeted surplus of \$0.5 million. Yukon's accumulated surplus now stands at \$721 million. Both revenues and expenses were within 1% variance of the initial budgets.
- The Government of Yukon continues to have a net financial resources position, with a balance at March 31, 2011 of \$169 million. To have net financial resources means a government has more financial assets than liabilities readily available to finance its future operations. Yukon is one of two Canadian jurisdictions (along with Alberta) that have net financial resources, rather than net debt.
- The Government continued to invest in the development of buildings and infrastructure. In 2010-11, the Government spent \$146 million for the development of tangible capital assets, which was an 11% increase from the previous year. A total of \$84 million, or 58%, of the \$146 million was spent on new buildings, including a new correctional facility, a new staff residence/health services facility and college campuses in communities. Utilizing federal capital funding such as the Building Canada Plan and Canada's Economic Action Plan, the Government also invested heavily in affordable housing as well as sewage and water related infrastructure development in the Yukon.
- The Government's revenues increased by \$71 million to \$976 million, an 8% increase from the previous year, largely due to increases in the Formula Financing transfer payments from the Government of Canada (\$41 million increase) and other grants and contributions (\$26 million increase).
- Expenses increased by \$51 million, to \$976 million, an increase of 6% from the previous year. In 2010-11, the largest increase was in natural resources, which includes the remediation work of abandoned mine sites, followed by the education sector. The Government spent \$30 million in 2010-11 (\$21 million in 2009-10) for the remediation of abandoned mine sites identified as Type II sites, the largest of which was the Faro mine. It is estimated to cost \$600 million over 30 years to remediate this mine site. The full funding for the remediation work of the Type II abandoned mines is provided by the Government of Canada pursuant to the program devolution transfer agreement made in October 2001.
- In June 2010, the Yukon Development Corporation, a government business enterprise, issued 30-year bonds in the amount of \$100 million to partially finance the construction of the new Mayo hydro plant and the second stage of the Carmacks–Stewart transmission line. The total estimated cost of these projects is \$160 million. The Government of Canada committed to fund these projects up to \$71 million from its \$1 billion Green Infrastructure Fund. The construction of these projects began in 2010-11. The Carmacks–Stewart transmission line was completed in June 2011 and the Mayo hydro plant is expected to be completed by the end of calendar year 2011.

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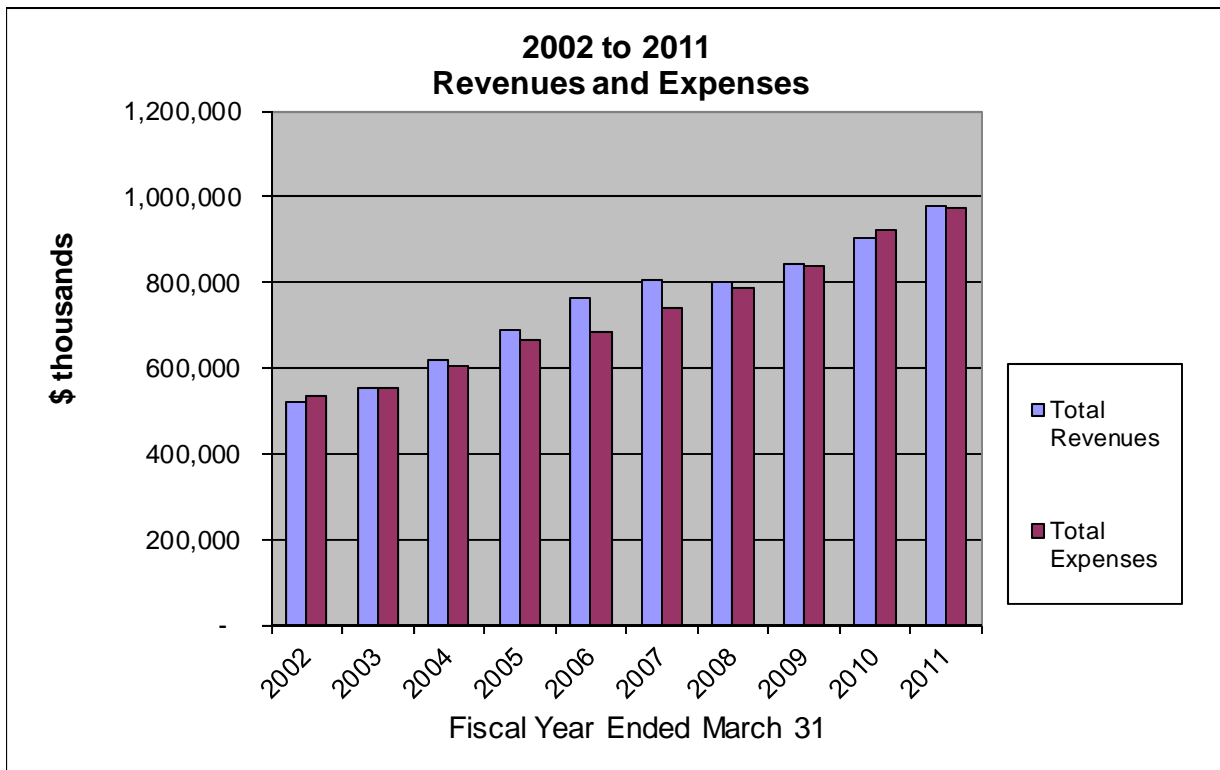
**Surplus for the Year**

In 2010-11, the Government reported an annual surplus of \$2 million. This compares to the budgeted surplus of \$0.5 million and the previous year's deficit of \$16 million.

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 ten 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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### **Financial Statement Discussion and Analysis for the year ended March 31, 2011**

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

At March 31, 2011, the Government's financial assets exceeded its liabilities, resulting in net financial resources of \$169 million (\$217 million at March 31, 2010). 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. At the end of the 2011 fiscal year, Yukon and Alberta were the only two Canadian jurisdictions that had net financial resources, rather than net debt. The reduction of \$49 million in net financial resources from the previous year-end was mainly due to large expenditures incurred for the construction of buildings and infrastructure.

In 2010-11, the Government invested more than the previous year in infrastructure development projects. The Government spent \$146 million (11% over the previous year's amount of \$131 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's Economic Action Plan; however, in large part, the Government invested its own resources on these projects. The Government received capital funding of \$67 million in 2010-11 and \$58 million in 2009-10.

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, 2011 was \$721 million (\$720 million at March 31, 2010).

#### **Revenues**

In 2010-11, the Government's total revenues increased by 8% (\$71 million), to \$976 million, from the previous year.

The Government receives the majority of its revenues from the Government of Canada as a Formula Financing grant. In 2010-11, the Government received \$653 million as a Formula Financing grant. This was an increase of \$41 million, or 7%, from the previous year.

In addition to the Formula Financing grant, the Government receives funding from the Government of Canada for purposes such as health and social programs and education. These transfer payments from the Government of Canada increased by \$26 million, or 21%, from the previous year. This increase was largely due to an increased cost recovery for the remediation of abandoned mine sites (\$9 million) and a cost recovery of a construction project performed on behalf of the Canada Border Services Agency (\$9 million).

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

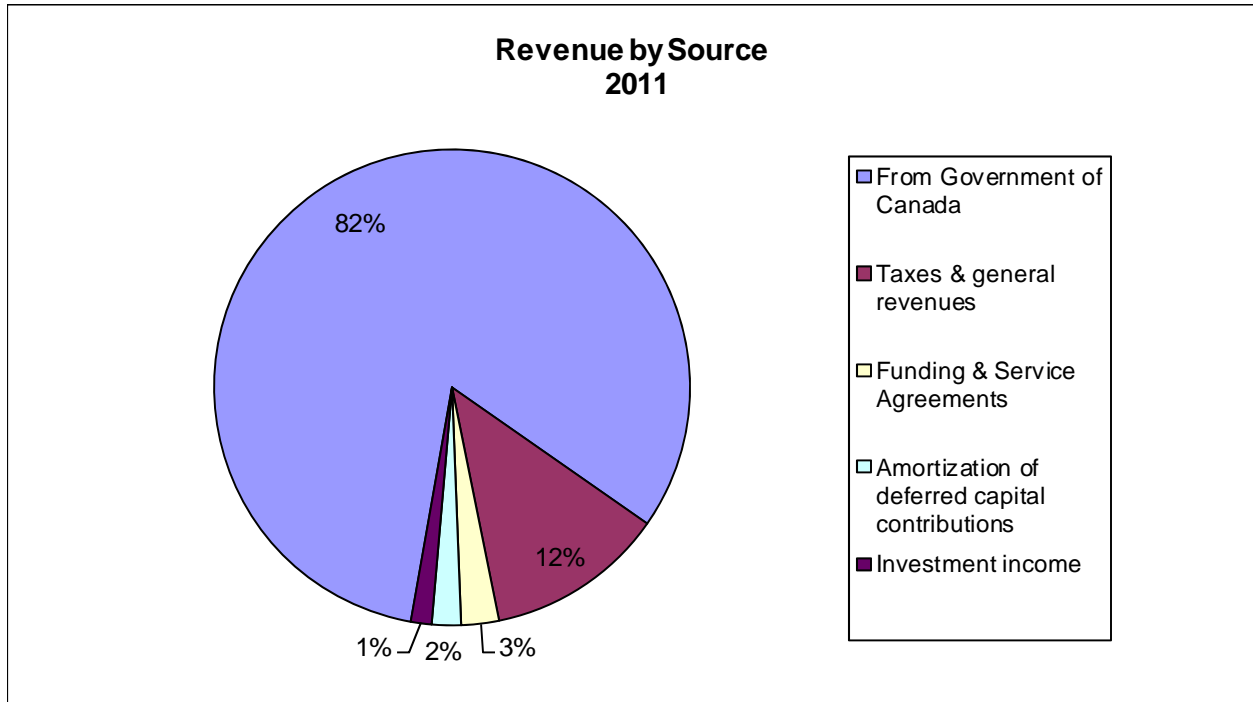
The income from investment in government business enterprises reported in the financial statements represents the net results of government corporations that are categorized as government business enterprises. Government of Yukon business enterprises include the Yukon Liquor Corporation and the Yukon Development Corporation, which reports its results consolidating the Yukon Energy Corporation.

In 2010-11, revenues, other than funding from the Government of Canada, remained consistent with the previous year.

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**Financial Statement Discussion and Analysis  
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Revenue by source is illustrated in the chart below:



**Expenses**

In 2010-11, 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 (67% in 2009-10).

Overall, expenses increased by 6% (\$51 million), to \$976 million, from the previous year. The largest increase was in the natural resources function, with an increase of \$17 million, followed by an \$11 million increase in education.

The increase in natural resources expenses was largely due to increased remediation work of abandoned mine sites. The largest of those sites was the Faro abandoned mine. In 2010-11, the Government spent approximately \$30 million for remediation of this site. The remediation work for the Faro mine site continues with an estimated cost of \$30 million per year for the fifteen-year construction phase and another \$10 million per year for the fifteen-year period of adjustment, with an estimated total cost of \$600 million. As part of the program transfer agreement, the Government of Canada is responsible for funding 100% of the cost.

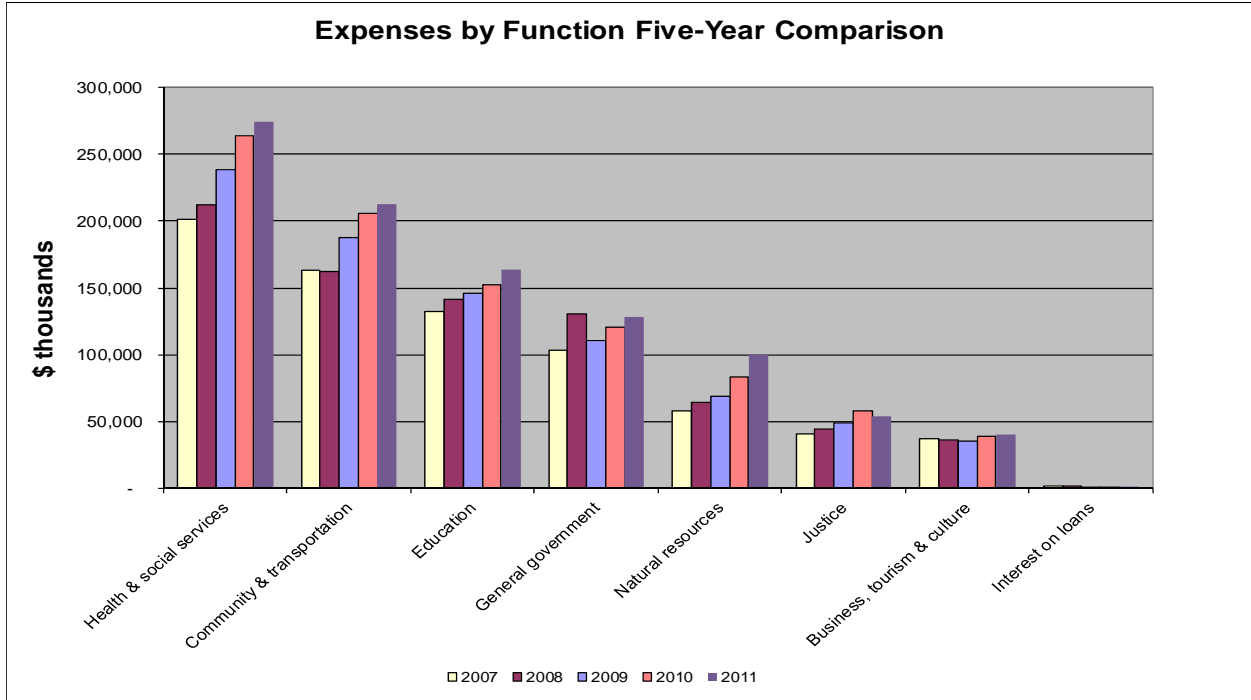
The increase in education was due to increased expenses for public schools, partly resulting from teachers' collective agreement settlement, as well as increased expenditures by Yukon College.

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.

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The chart below illustrates a five-year comparison of expenses by function.



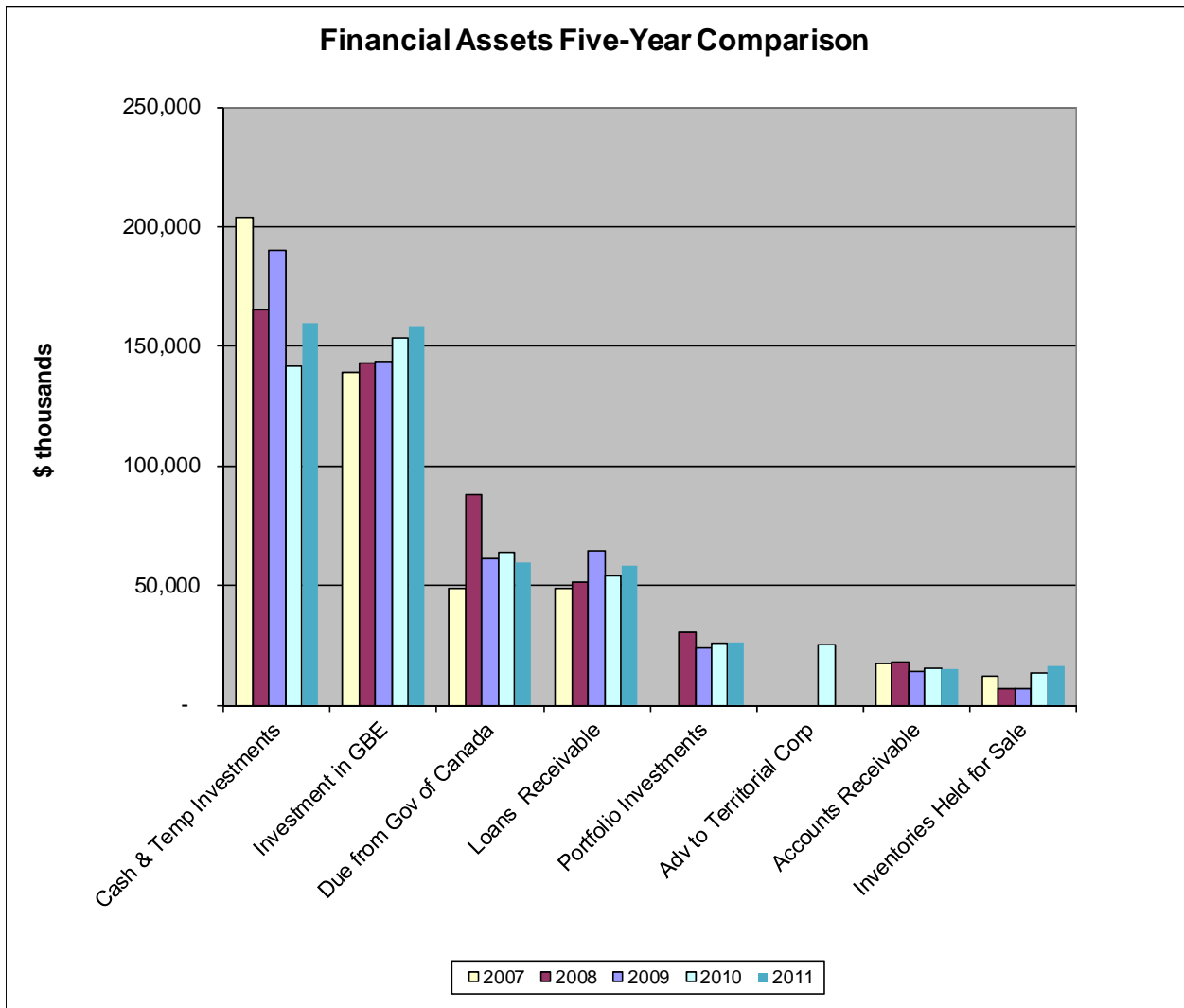
**Financial Statement Discussion and Analysis  
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**Assets**

**Financial Assets**

Financial assets consist of assets available to discharge existing liabilities or to finance future activities. At March 31, 2011, the value of total financial assets was \$494 million, which is unchanged from the previous year. Within financial assets, cash, cash equivalents and temporary investments increased by \$18 million or 13% from the previous year. Cash, cash equivalents and temporary investments of \$159 million accounted for 32% of total financial assets.

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





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### **Financial Statement Discussion and Analysis for the year ended March 31, 2011**

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. These financial assets are highly liquid and readily available to discharge Government's financial obligations.

At March 31, 2011, the Government held \$159 million in cash, cash equivalents and temporary investments, which is an increase of \$18 million from the previous year.

#### Investment in government business enterprises

Investment in government business enterprises, which are self-sustainable government corporations, represent equities of the Yukon Development Corporation ("YDC") and the Yukon Liquor Corporation. YDC had an investment value of \$158 million at March 31, 2011 (2010 - \$152 million). The Yukon Energy Corporation, which supplies and sells power in the Yukon, is a wholly-owned subsidiary of YDC.

During the fiscal year 2010-11, the Yukon Energy Corporation commenced construction of the Mayo hydro plant and the second phase of the Carmacks-Stewart transmission line with an estimated total project cost of \$160 million. The Government of Canada has committed to fund these projects up to \$71 million. In June 2010, YDC issued 30-year bonds in the amount of \$100 million to finance the projects. The Government has agreed to provide YDC with financial assistance to a maximum of \$2,625,000 annually from April 1, 2011 to March 31, 2042, depending on the annual financial results of YDC.

The Carmacks-Stewart transmission line was completed in June of 2011 and the Mayo hydro plant is scheduled to be in operation by the end of calendar year 2011.

#### Due from Government of Canada

At March 31, 2011, the Government had receivables from the Government of Canada in the amount of \$59 million, 92% of which were outstanding claims on cost sharing agreements and projects delivered on behalf of the federal government.

#### Loans receivable

The Government had loans receivable of \$59 million, of which 64%, or \$37 million, were Yukon Housing Corporation mortgages receivable, followed by 19%, or \$11 million, in land-sale related loans receivable that are also administered by the Yukon Housing Corporation. The \$59 million receivable is net of allowance for doubtful accounts of \$2 million. The Government does not expect any significant losses resulting from doubtful accounts.

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Portfolio investments

At March 31, 2011 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 scheduled to be repaid on January 22, 2017. Fair value of FRNs held by the Government is estimated at \$31 million as of March 31, 2011 (\$29 million at March 31, 2010). Further details of these investments are described in notes 7 and 17 to the consolidated financial statements.

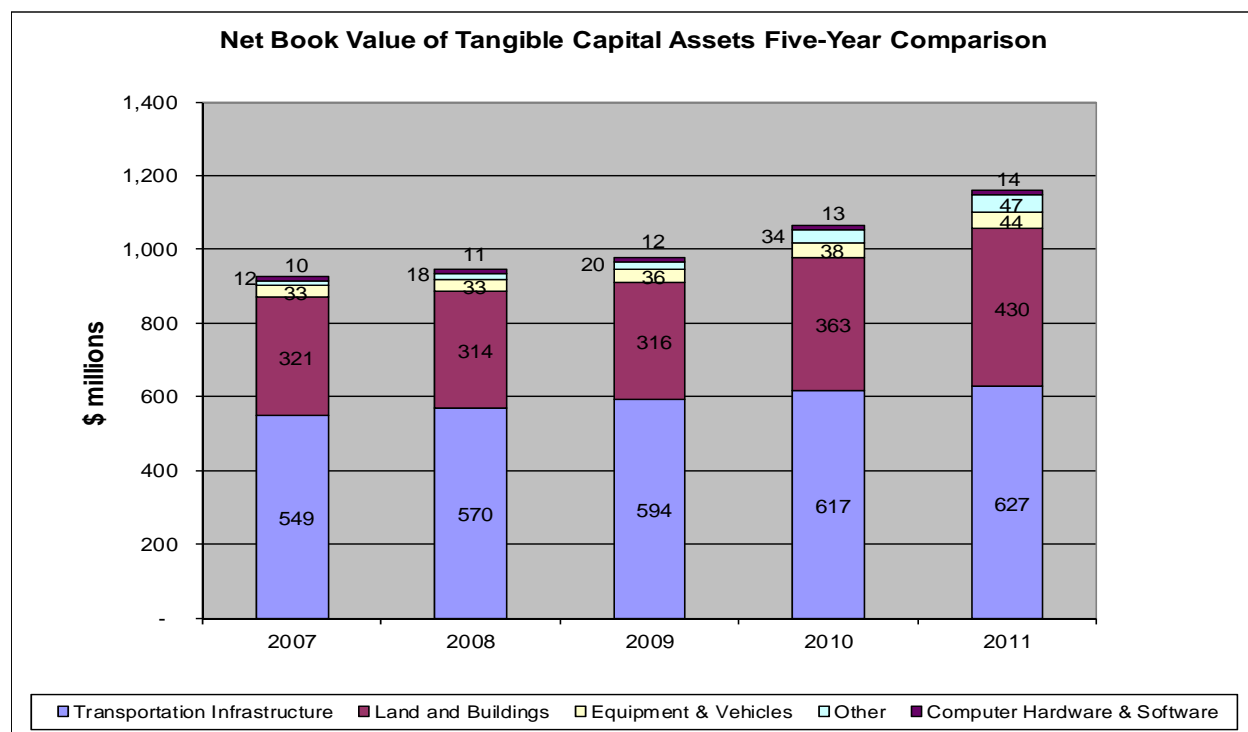
**Non-financial Assets**

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, 2011, the Government owned and used tangible capital assets valued at \$1.2 billion for its program delivery, an increase of \$97 million from the previous year value of \$1.1 billion. Of those assets, \$620 million, or 53%, are either funded by the Government of Canada and other external parties or transferred from the Government of Canada as part of the transfer of various program responsibilities.

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



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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.

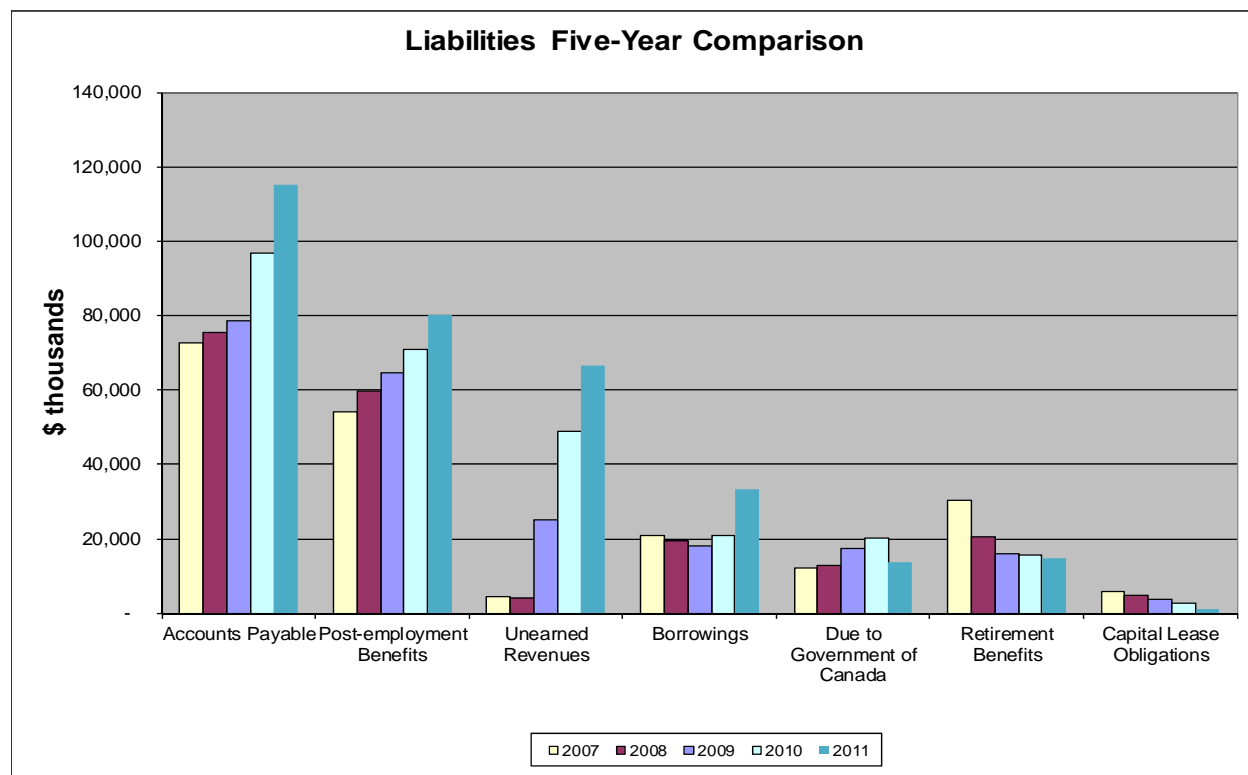
In 2010-11, the Government made the following investment in tangible capital assets:

Opening balance at April 1, 2010	\$ 1,065 million
Investment during the year	146 million
Less: Disposal and write-downs	(4) million
Amortization	(45) million
<b>Balance at March 31, 2011</b>	<b>\$ 1,162 million</b>

Of the \$146 million invested in tangible capital assets during the year, \$67 million was funded by other governments. The largest capital funding the Government received in 2010-11 was from the Government of Canada under various economic stimulus funding programs (\$56 million), followed by the State of Alaska for reconstruction of the Alaska Highway (\$10 million).

**Liabilities**

At March 31, 2011, the liabilities of the Government totaled \$325 million (\$276 million at March 31, 2010), which is equivalent to 66% of the financial assets of the Government. A five-year comparison of the Government's liabilities by category is illustrated below:



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### Financial Statement Discussion and Analysis for the year ended March 31, 2011

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 19% from the previous year total of \$97 million to \$115 million at March 31, 2011. 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, 2011 was \$80 million (\$71 million at March 31, 2010).

#### Unearned revenue

Unearned revenues mostly represent funding received from the Government of Canada, which have not yet been expended in accordance with funding agreements. Of the total unearned revenue of \$66 million reported as of March 31, 2011 (\$49 million at March 31, 2010), 75%, or \$50 million, were unspent monies received under the Building Canada Plan from the Government of Canada and 11% or \$7 million represented monies yet to be spent for the affordable housing initiative under Canada's Economic Action Plan.

#### Borrowings

The largest portion of the \$33 million reported as borrowings relates to the Yukon Hospital Corporation's subscribed portion of a demand construction facility loan totaling \$18 million. The Yukon Hospital Corporation is using the loan to finance the costs of the new staff residence/health services building in Whitehorse, two new hospitals in communities and renovation of an extended care facility with an estimated total cost of \$70 million. The demand construction loan will be repaid in full from the proceeds of demand term installment loans upon substantial completion of each project, which is estimated to range from August 2011 to September 2012.

Mortgages payable by the Yukon Housing Corporation represent a further \$12 million of the Government's borrowings.

#### Due to Government of Canada

34% of the \$14 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.

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#### Retirement benefits

At March 31, 2011, the retirement benefit liability of \$15 million represented the Government's extended health benefits, which are provided to retired employees, and various pension plan liabilities. The employees of the Government of Yukon participate in the Public Service Pension Plan administered by the Government of Canada; therefore, no pension plan liability is recorded for the Government of Yukon employees. Contributions payable, determined by the Government of Canada, represents total obligations for the Government employees' future pension benefits. The Government contributed \$33 million to the Public Service Pension Plan in 2010-11 as the employer's share (\$30 million in 2009-10).

Pension plan liabilities that are included in the \$15 million are those for the Members of Legislative Assembly, territorial court judges and employees of Yukon College and the Yukon Hospital Corporation. The Yukon Hospital Corporation, Yukon College and Legislative Assembly pension plans are in an asset position on a going-concern basis, totaling \$17 million. This amount is offset by liabilities in the amount of \$32 million for the Government of Yukon employees' extended health care retirement benefit and other retirement benefit liabilities, resulting in the net liability of \$15 million.

The most recent actuarial valuations for funding purposes indicate that, if valued on the basis that the pension plan were terminated as of the valuation date, Yukon College had a deficiency of \$3.5 million and the Yukon Hospital Corporation had a deficiency of \$14.4 million (solvency deficits). In May and June 2011, the Yukon Hospital Corporation and the Yukon College entered into letters of credit with banks to help cover solvency deficits of the pension plans. The maximum amounts of the letters of credit are \$2.0 million and \$1.5 million respectively, and remain in effect until 2012.

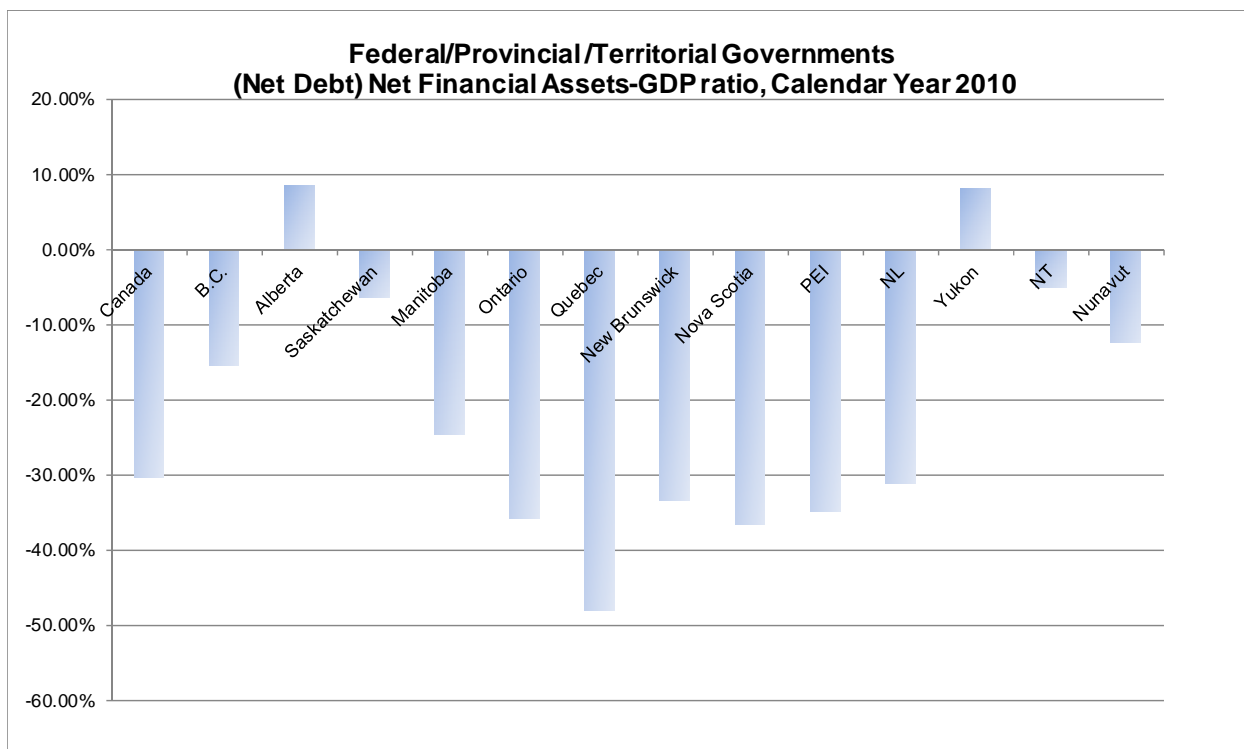
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**Indicators of Financial and Economic Conditions**

**Canadian Jurisdictional Comparison of (Net Debt) Net Financial Assets to Gross Domestic Product (GDP)**

The bar graph below shows a Canadian jurisdictional comparison of (net debt) net financial resources/assets to GDP ratio. Yukon and Alberta are the only jurisdictions that have a positive ratio. A positive ratio indicates banked resources to finance future operations and obligations. A negative ratio indicates that the government must rely on future revenues to discharge existing liabilities.



Source: GDP - Statistic Canada 2010 based on preliminary estimates. Canada's GDP is based on 2010 published figure.  
(Net Debt) Net Financial Resources – as at March 31, 2011 based on released Public Accounts (March 31, 2010 if the information was not available at the time of publication).

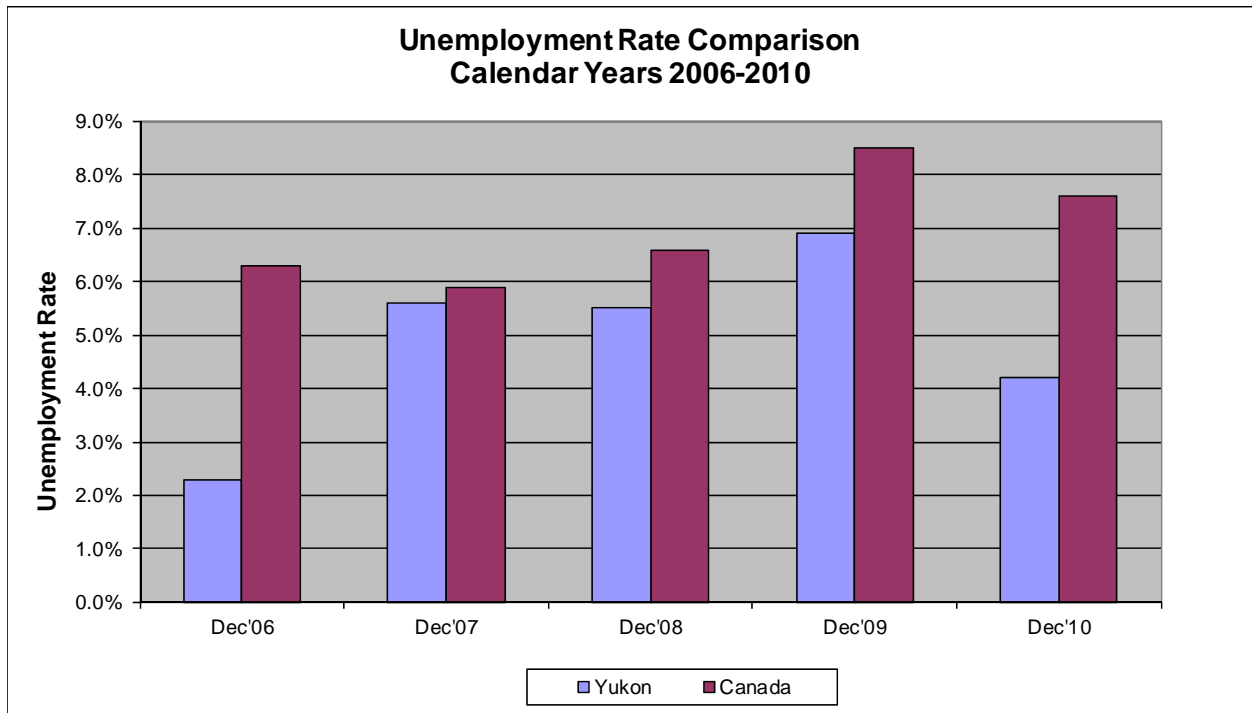
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Unemployment rate (Calendar Year 2010)

Yukon's unemployment rate was 4.2% in December 2010, which was below the national average of 7.6%.

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



Source: Yukon Bureau of Statistics