

**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, 2012**

#### **Introduction**

The Public Accounts are 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.

#### **2011-12 Highlights**

- The Government reported an annual surplus of \$69 million compared to a \$1 million surplus in 2010-11. This increase was largely due to increased contributions from the Government of Canada and increased own source revenue, primarily income taxes.
- Expenses in 2011-12 were \$23 million higher than last year, and were within 0.3% of the initial budget.
- The Government of Yukon continues to have a net financial resources position, with a balance at March 31, 2012 of \$188 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.
- In 2011-12, the Government spent \$113 million for the development of tangible capital assets compared to \$146 million in the previous year. The Government continued to invest in new infrastructure, including the construction of two new hospital buildings. The construction of these hospital buildings is financed with bank loans, resulting in an increase of \$32 million in borrowings as of March 31, 2012. Utilizing federal capital funding such as the Building Canada Fund, the Government also invested heavily in sewage and water related infrastructure development in the Yukon.
- During 2011-12, two large infrastructure projects, the Carmacks-Stewart transmission line and Mayo hydro plant, undertaken by the Yukon Energy Corporation, the wholly-owned subsidiary of Yukon Development Corporation, were completed on time and within a total project budget of \$160 million.
- In response to the increased demand for residential development, due to the strong economy and population growth, the Government spent \$40 million on land development in 2011-12. This was an increase of \$27 million, or 214%, from 2010-11, resulting in a \$36 million increase in inventories held for sale as of March 31, 2012. Of the \$40 million, \$31 million was spent on the new Whistle Bend subdivision in the City of Whitehorse.

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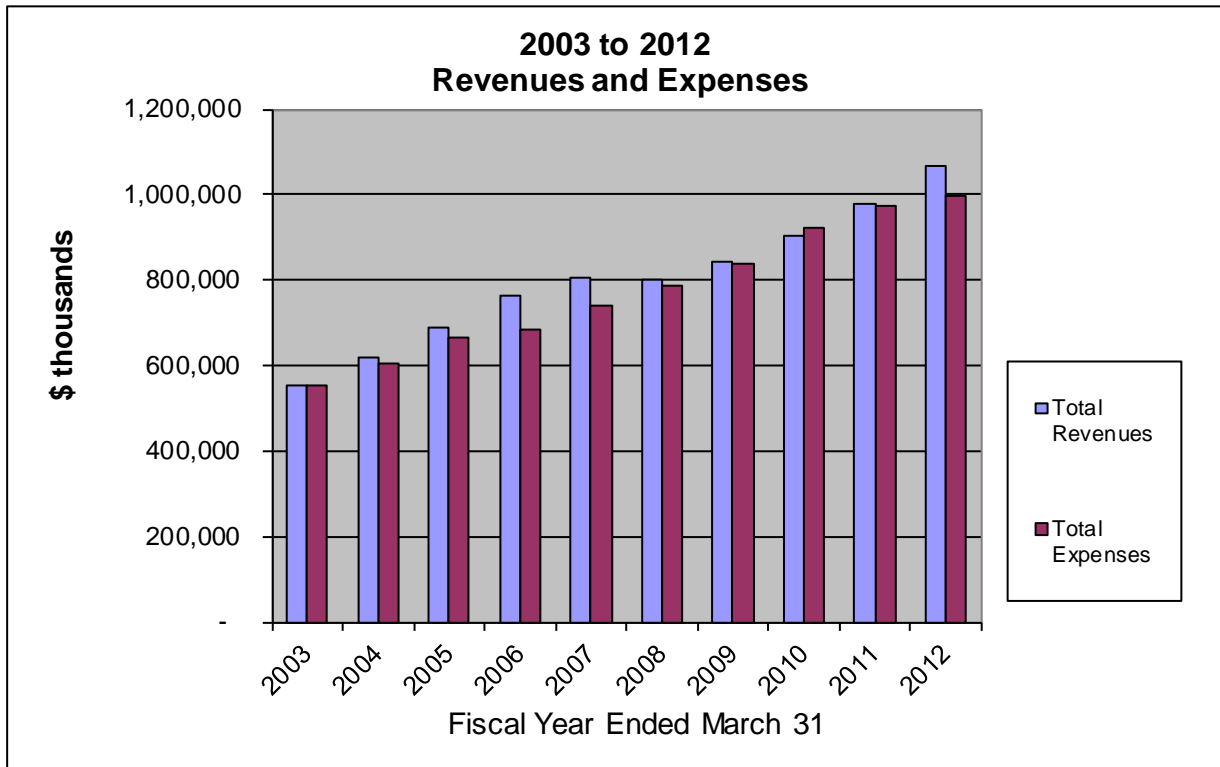
**Surplus for the Year**

In 2011-12, the Government reported an annual surplus of \$69 million. This compares to the budgeted surplus of \$39 million and the previous year's surplus of \$1 million. The variance of \$30 million from the budgeted surplus is largely due to higher than expected income tax revenue (\$10 million), contributions from the Government of Canada (\$9 million), and mineral resource revenue (\$4 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; and
- direct government spending and operating transfers to individuals and other public organizations, such as municipalities.

The chart below illustrates the trend between revenues and expenses 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.



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

At March 31, 2012, the Government's financial assets exceeded its liabilities, resulting in net financial resources of \$188 million (\$169 million at March 31, 2011). 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 2012 fiscal year, Yukon and Alberta were the only two Canadian jurisdictions that had net financial resources, rather than net debt.

The Government's net financial resources increased by \$20 million in 2011-12 due to the large \$69 million surplus for the year. Net financial resources are affected by expenditures on tangible capital assets. In 2011-12, the net effect of tangible capital assets related activities on financial resources, which was not reflected in the annual surplus, was a decrease of \$49 million (also a decrease of \$49 million in 2010-11).

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, 2012 was \$791 million (\$721 million at March 31, 2011).

#### **Revenues**

In 2011-12, the Government's total revenues increased by 9% (\$91 million), to \$1.1 billion, from the previous year.

The Government receives the majority of its revenues from the Government of Canada as a Formula Financing grant. In 2011-12, the Government received \$705 million as a Formula Financing grant. This was an increase of \$52 million, or 8%, 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.

Taxes and general revenues include corporate income, personal income, tobacco, liquor, fuel, insurance premium and property taxes as well as licences and fees such as motor vehicle licences and business/professional fees. Taxes and general revenues increased by \$25 million, to \$143 million, from the previous year. This was largely due to an increase in corporate and personal income taxes revenue (\$22 million) as a result of strong economic growth seen in the Yukon.

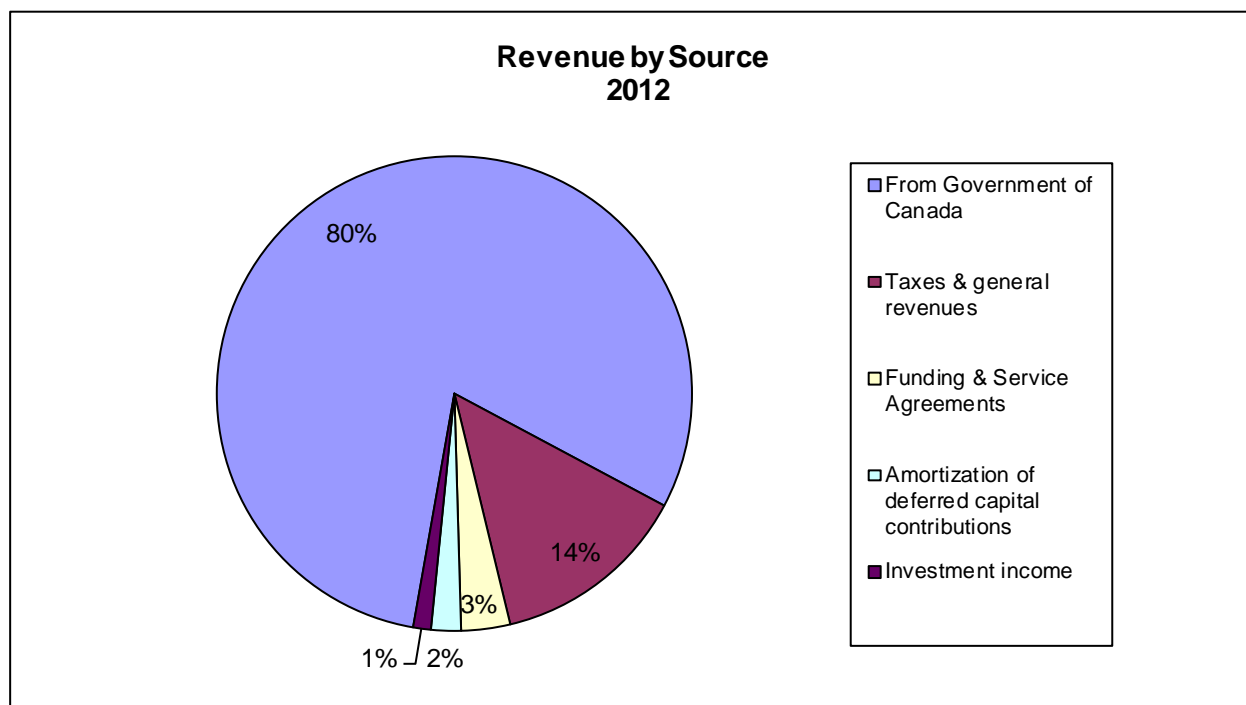
The income from investment in government business enterprises reported in the financial statements represents the net results of government corporations that are categorized as government business enterprises. Government of Yukon business enterprises include the Yukon Liquor Corporation and the Yukon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

In 2011-12, the composition between different types of revenue remained consistent with previous years.

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Revenue by source is illustrated in the chart below:



**Expenses**

In 2011-12, the ratio of expenses by function remained consistent with the previous year, with health and social services, community and transportation, and education comprising 69% of total expenses (67% in 2010-11).

Overall, expenses increased by 2% (\$23 million), to \$998 million, from the previous year. The largest increase was in the community and transportation function, with an increase of \$26 million, followed by a \$7 million increase in health and social services.

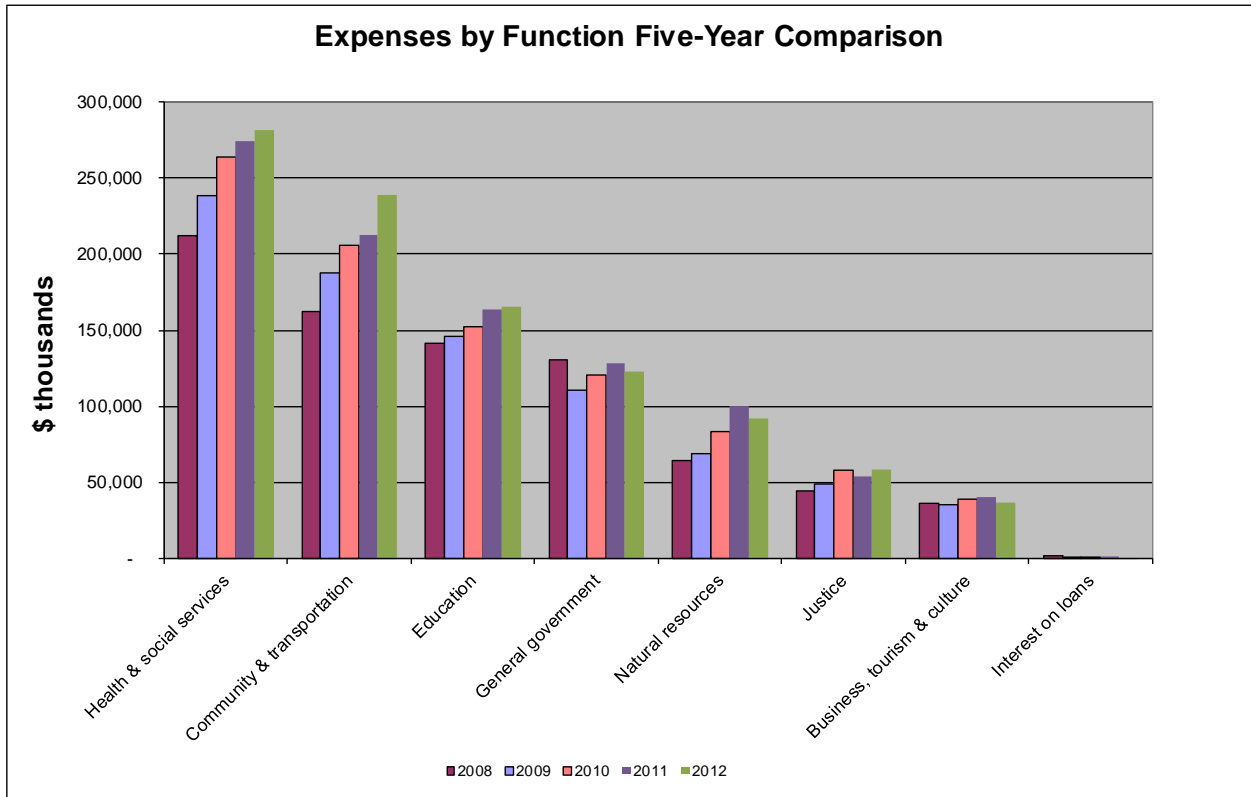
The increase in community and transportation expenses was mainly due to greater transfers to municipalities for upgrades to their sewer and water infrastructure. These projects are largely funded by the Building Canada Fund.

As for the type of expenses, the highest percentage was wages and benefits (45%), followed by procurement of goods and services (33%), transfer payments (17%) and amortization expenses (5%). This ratio is consistent with previous years.

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



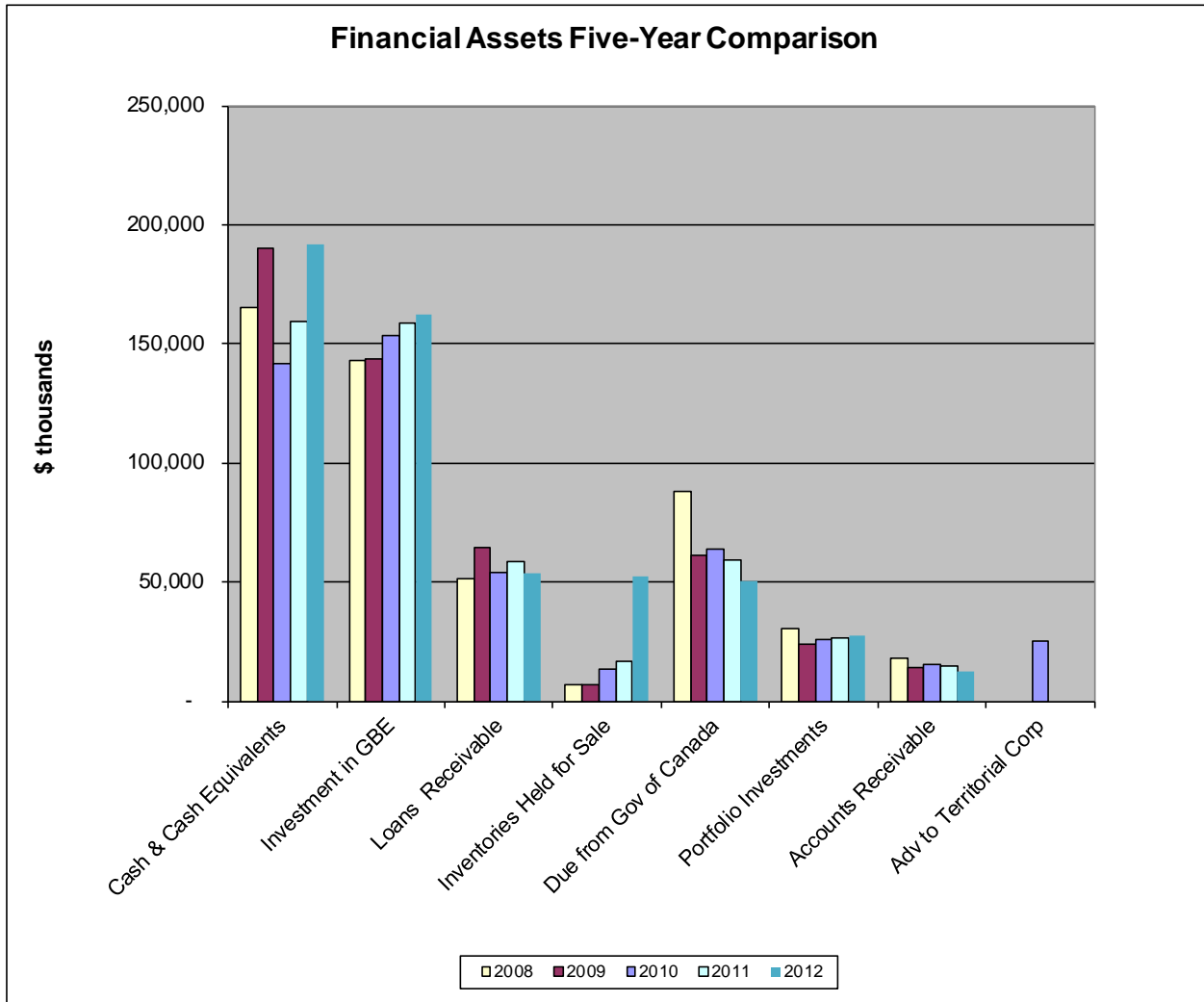
**Financial Statement Discussion and Analysis  
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**Assets**

**Financial Assets**

Financial assets consist of assets available to discharge existing liabilities or to finance future activities. At March 31, 2012, the value of total financial assets was \$551 million, which is an increase of \$57 million from the previous year. Within financial assets, cash and cash equivalents increased by \$32 million, or 20%, from the previous year. Cash and cash equivalents of \$192 million accounted for 35% 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, 2012

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

#### Cash and cash equivalents

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.

At March 31, 2012, the Government held \$192 million in cash and cash equivalents, which is an increase of \$32 million from the previous year. Of the \$192 million, \$55 million is to be spent for specific purposes in the future (see "Unearned revenues" in the "Liabilities" section).

#### 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 \$162 million at March 31, 2012 (2011 - \$158 million). The Yukon Energy Corporation, which supplies and sells power in the Yukon, is the wholly-owned subsidiary of YDC.

During the fiscal year 2011-12, the Yukon Energy Corporation finished construction of the Mayo hydro plant and the second phase of the Carmacks-Stewart transmission line on time and within the total project budget of \$160 million. The Government of Canada has contributed \$71 million towards this project through its Green Infrastructure Fund. In June 2010, YDC issued 30-year bonds in the amount of \$100 million, in part, to finance the projects.

#### Loans receivable

The Government had loans receivable of \$54 million, of which 65%, or \$35 million, were Yukon Housing Corporation mortgages receivable, followed by 16%, or \$9 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.

#### Inventories held for sale

Inventories held for sale totalled \$52 million as of March 31, 2012. This was an increase of \$36 million, or 217%, from the previous year. The inventories largely consist of lots that were developed by the Government for sale to the public. In 2011-12, the Government spent \$40 million, which is \$27 million more than the previous year, to develop mainly residential lots. Of the \$40 million, \$31 million was spent on the new Whistle Bend subdivision in the City of Whitehorse. This was in response to the increased demand for residential development as a result of the strong economy and population growth in the Yukon. Lots in the new subdivision became available for purchase in September 2012.

#### Due from Government of Canada

At March 31, 2012, the Government had receivables from the Government of Canada in the amount of \$51 million, 87% of which were outstanding claims on cost sharing agreements and projects delivered on behalf of the federal government.

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Portfolio investments

At March 31, 2012 the Government held investments in Floating Rate Notes (“FRNs”) with a carrying value of \$28 million as a result of a restructuring process related to previous investments. 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 \$29 million as of March 31, 2012. Further details of these investments are described in notes 6 and 17 to the consolidated financial statements.

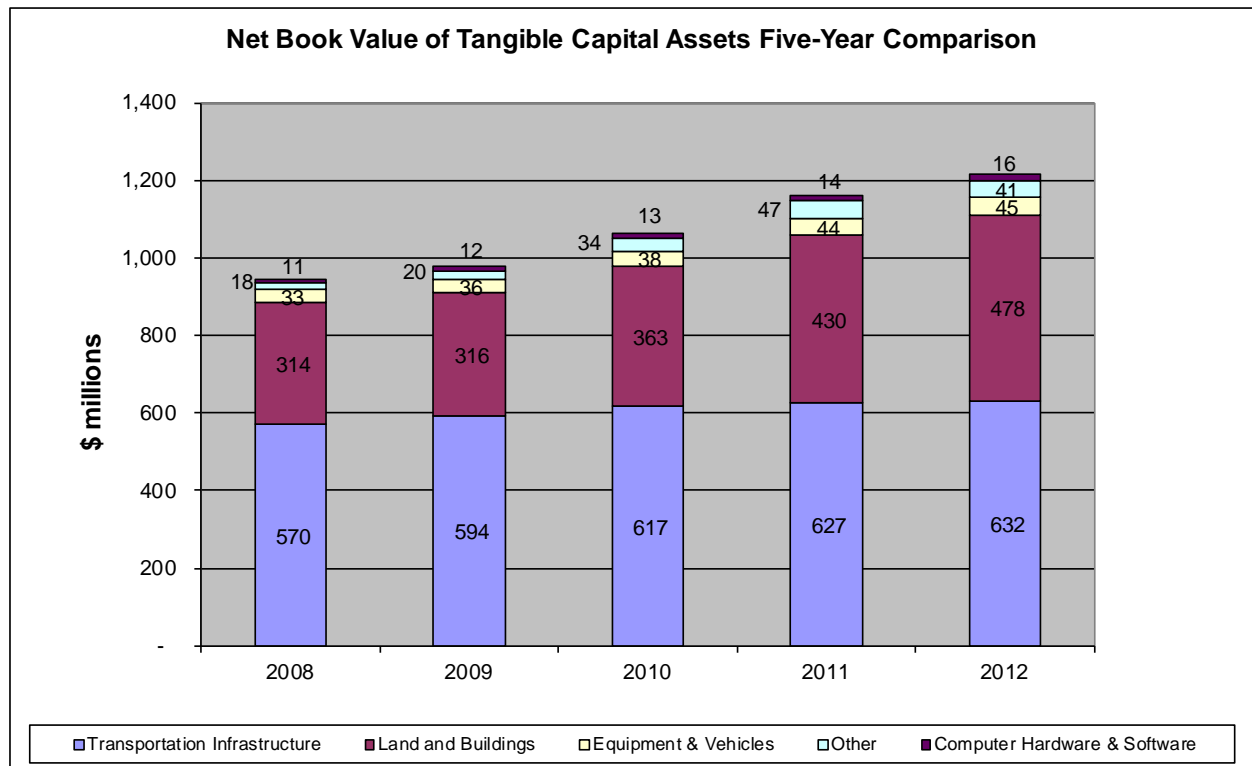
**Non-financial Assets**

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, 2012, the Government owned and used tangible capital assets valued at \$1.21 billion for its program delivery, an increase of \$52 million from the previous year value of \$1.16 billion. Of those assets, \$623 million, or 52%, 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.

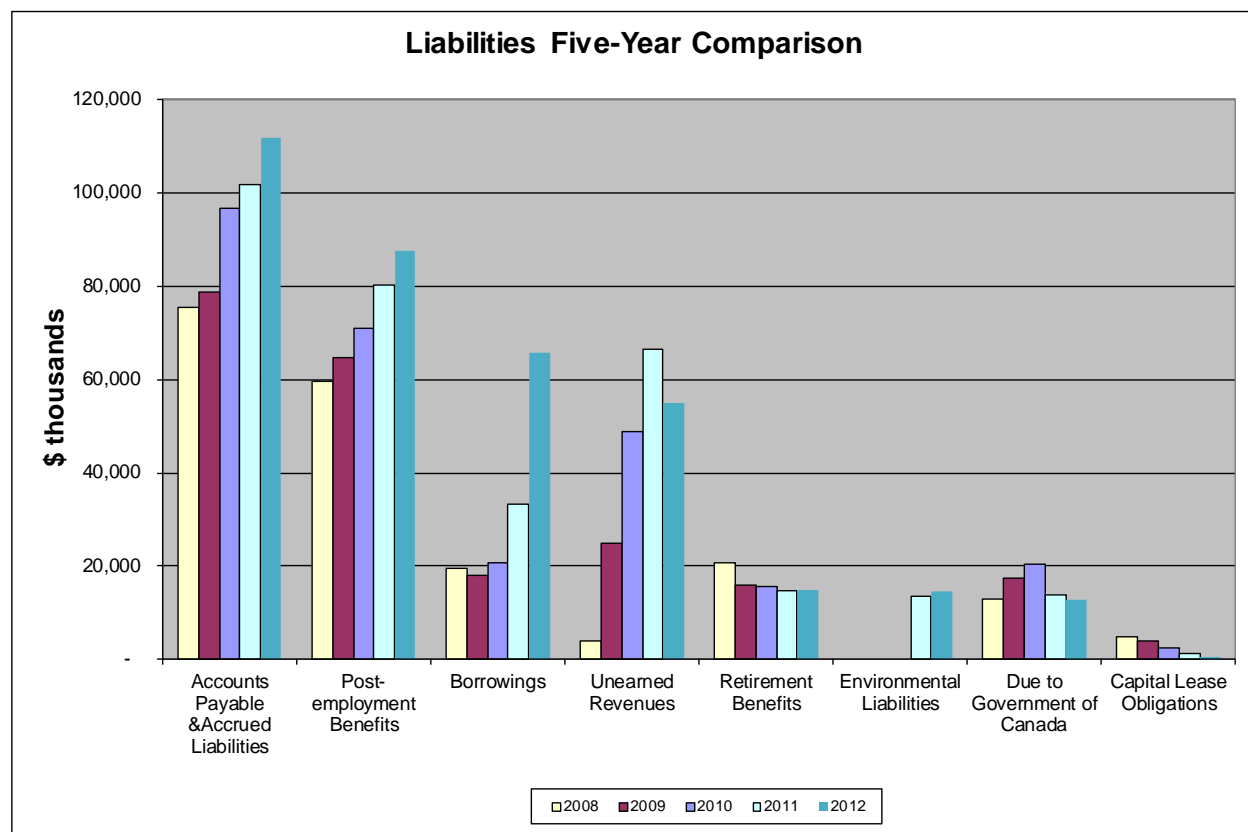
In 2011-12, the Government made the following investment in tangible capital assets:

Opening balance at April 1, 2011	\$ 1,162 million
Investment during the year	113 million
Less: Disposal and write-downs	(13) million
Amortization	(48) million
<b>Balance at March 31, 2012</b>	<b>\$ 1,214 million</b>

Of the \$113 million invested in tangible capital assets during the year, \$33 million was funded by other governments. The largest capital funding the Government received in 2011-12 was from the Government of Canada under various economic stimulus funding programs (\$21 million), followed by the State of Alaska for reconstruction of the Alaska Highway (\$11 million).

**Liabilities**

At March 31, 2012, the liabilities of the Government totaled \$362 million (\$325 million at March 31, 2011), 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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Major categories of the Government's liabilities are described as follows:

#### Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are the Government's liabilities that are generally paid within a year. The total accounts payable and accrued liabilities of \$112 million is an increase of 10% from the previous year's total of \$102 million.

#### Post-employment benefits

The Government's second largest liability, after accounts payable and accrued liabilities, is post-employment benefits. Post-employment benefits are provided to employees after employment but before retirement. These benefits consist of severance pay, a portion of sick leave and vacation leave that are paid out to employees at termination of employment. The Government uses an actuary to estimate its post-employment benefit liability. The post-employment benefit liability at March 31, 2012 was \$87 million (\$80 million at March 31, 2011).

#### Borrowings

The largest portion of the \$66 million reported as borrowings relates to the Yukon Hospital Corporation's subscribed portion of demand construction facility loans and demand term installment loans totaling \$52 million. The Yukon Hospital Corporation is using the loans to finance the costs of the new staff residence/medical service building in Whitehorse, renovations to an extended care facility in Whitehorse, and new hospitals in Watson Lake and Dawson City. The estimated cost of these projects is \$76 million.

Mortgages payable by the Yukon Housing Corporation represent a further \$11 million of the Government's borrowings.

#### Unearned revenues

Unearned revenues is mostly comprised of funding received from the Government of Canada that has not yet been expended in accordance with funding agreements. Of the total unearned revenues of \$55 million reported as of March 31, 2012 (\$66 million at March 31, 2011), 85%, or \$47 million, was unspent monies received under the Building Canada Fund.

#### Retirement benefits

At March 31, 2012, 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. 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 \$20 million. This amount is offset by liabilities in the amount of \$35 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 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 \$35 million to the Public Service Pension Plan in 2011-12 as the employer's share (\$33 million in 2010-11).

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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 \$12 million and the Yukon Hospital Corporation had a deficiency of \$28 million (solvency deficits). Yukon College and the Yukon Hospital Corporation entered into letters of credit with banks to help cover solvency deficits of their pension plans.

#### Environmental liabilities

At March 31, 2012, the Government has recorded \$15 million as a liability for the costs related to the remediation of contaminated sites for which the Government is responsible. The majority of the liability is for highway maintenance camps. The Government has also recorded a liability for a tar pit in the City of Whitehorse, in the amount of \$2 million, based on an agreement with the Government of Canada to cost-share the remediation of this site. More information on the Government's environmental liabilities is provided in note 11 of the financial statements.

#### Due to Government of Canada

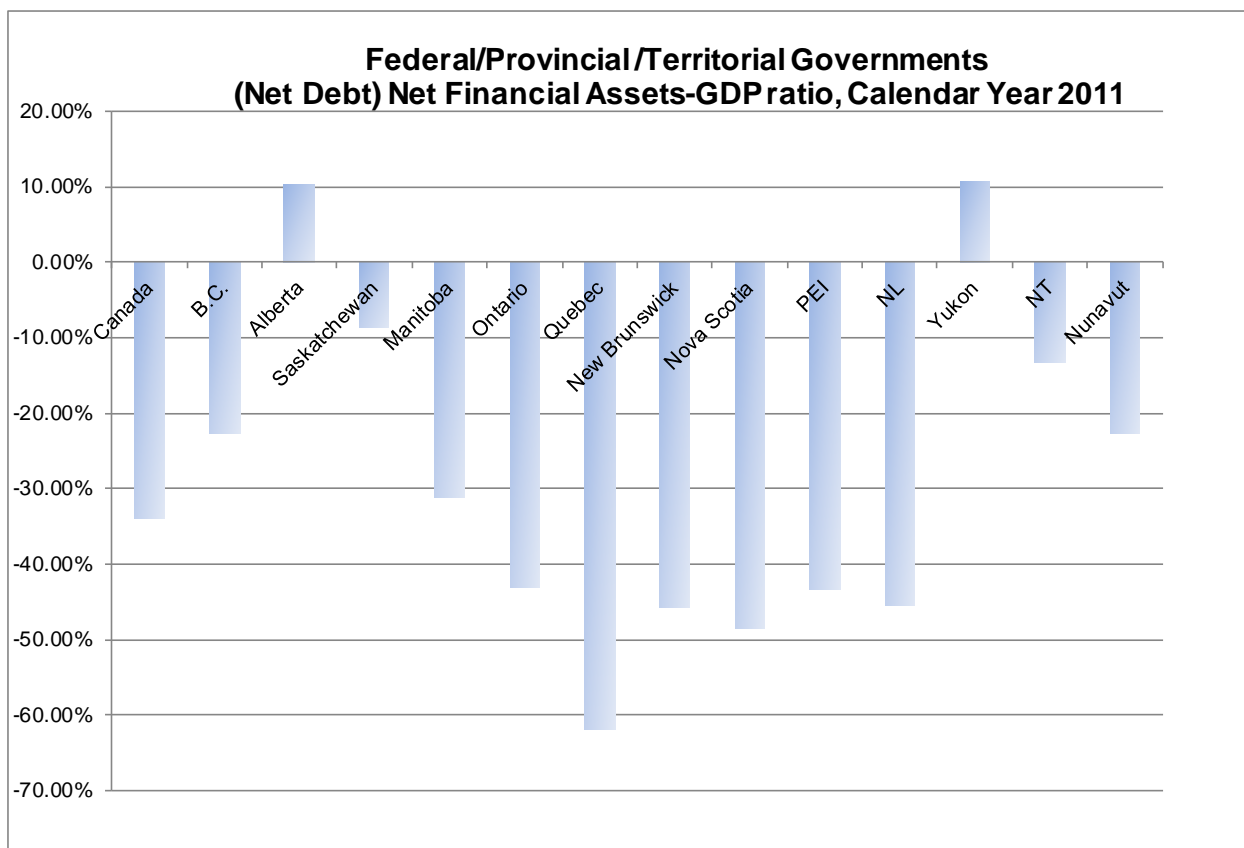
\$6 million, or 44%, of the \$13 million payable to the Government of Canada represents accounts payable for the policing services provided by RCMP in the Yukon. The Government annually pays approximately \$20 million to RCMP for these services. \$5 million of the amount due to the Government of Canada relates to Public Service Pension Plan contributions.

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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 2011 based on preliminary estimates. Canada's GDP is based on 2011 published figure. (Net Debt) Net Financial Resources – as at March 31, 2012 based on released Public Accounts (March 31, 2011 if the information was not available at the time of publication).

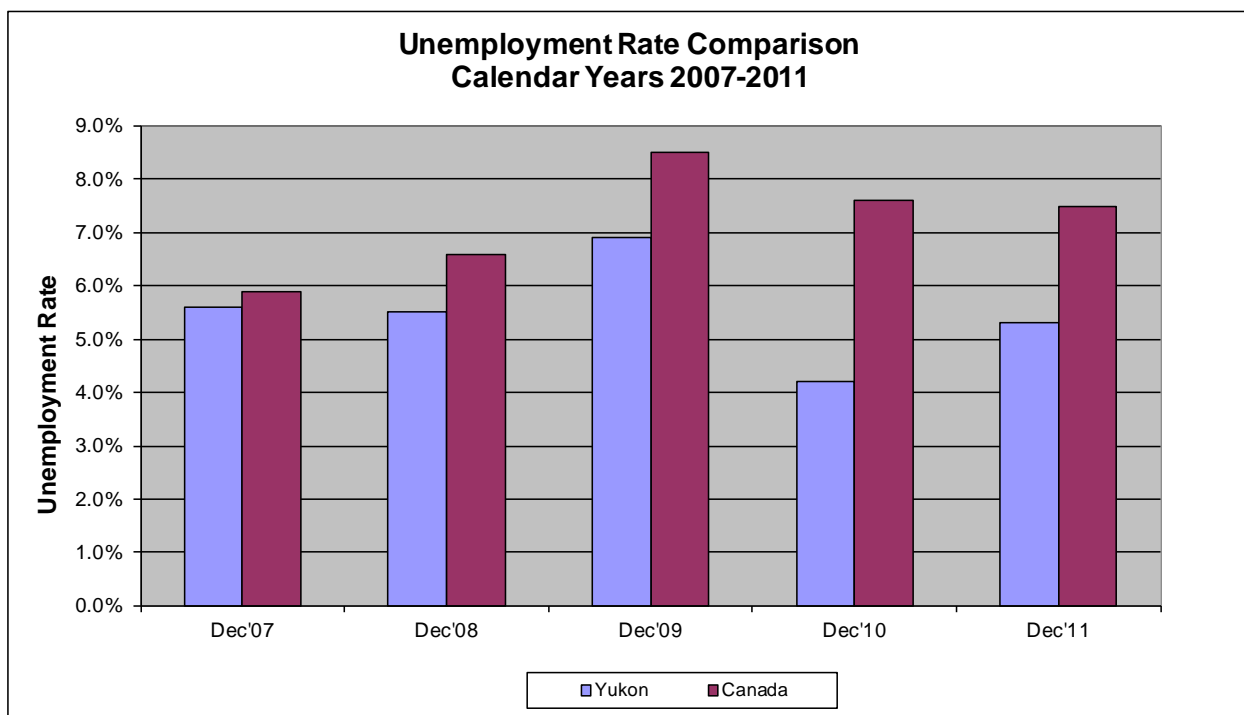
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Unemployment rate (Calendar Year 2011)

Yukon's unemployment rate was 5.3% in December 2011, which was below the national average of 7.5%.

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