

GOVERNMENT OF YUKON

Financial Statement Discussion and Analysis for the year ended March 31, 2013

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.

2012-13 Highlights

- As of the fiscal year 2012-13, the Government adopted new accounting standards for government transfers and tax revenues issued by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. This resulted in restatements of the previous year’s amounts. The largest change was the elimination of deferred capital contributions. This accounting change resulted in an increase of non-financial assets by \$623 million and an increase of accumulated surplus by the same amount as of March 31, 2012.
- The Government reported an annual surplus of \$119 million compared to a \$74 million surplus in 2011-12. This increase of \$45 million was largely due to increased formula financing grant from the Government of Canada in the amount of \$62 million and an increase of income taxes in the amount of \$14 million, resulting in total revenues increasing by \$96 million. The total revenues were 1% more than the initial budget of \$1.2 billion. Expenses increased by \$51 million (net of recovery of prior years’ expenses) from the previous year. Total expenses in 2012-13 were 2% below the main estimate of \$1.1 billion.
- The Government of Yukon continues to be in a positive net financial assets position, with a balance at March 31, 2013 of \$281 million. To have net financial assets 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 are reporting net financial assets, rather than net debt.
- In 2012-13, the Government spent \$89 million for the development of tangible capital assets compared to \$113 million in the previous year. One of the factors for the decrease in capital spending was the completion of the new Whitehorse correctional center in 2011-12 which had a cost of \$51 million. The Yukon Hospital Corporation, an entity that is consolidated in these financial statements, continued to construct two new hospital buildings, one in Dawson City and the other in Watson Lake with estimated project costs of \$60 million. 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.
- In response to the increased demand for residential development, the Government spent a further \$24 million on land development in 2012-13 (\$40 million in 2011-12). Of the \$24 million spent in 2012-13, \$21 million was for the development of the Whistle Bend subdivision in the City of Whitehorse.

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Adoption of new accounting standards

Effective the fiscal year 2012-13, following the requirements of Canadian public sector accounting standards, the Government adopted new accounting standards for government funding and tax revenues. The most significant change that resulted from the adoption of these new standards was the way in which the Government recognized revenue in relation to the capital funding received or capital assets transferred from other governments. Before the adoption of the new standard, the Government deferred revenue recognition of capital funding and brought it into revenue, matching revenue to the amortization expenses of the related asset. The new accounting standard for government funding allows governments to defer revenue recognition only if the deferred amount meets the definition of liabilities.

The Government has received a large amount of capital assets from the Government of Canada through devolution of various programs and administrative responsibilities. The Government has also received a large amount of capital funding from the Government of Canada under various funding programs especially under the recent economic stimulus funding. It was determined that the deferred capital funding, for the purpose of matching revenue to amortization expense, did not meet the definition of liabilities; consequently, \$623 million were restated from non-financial assets to accumulated surplus as of March 31, 2012.

Also as of the fiscal year 2012-13, the Yukon Hospital Corporation and Yukon College adopted Canadian public sector accounting standards. The implication of this accounting standard change was an increase of their equity at March 31, 2012 by \$12 million.

All the changes in accounting policies due to the adoption of new accounting standards were applied retroactively with a restatement of prior-year amounts.

Surplus for the Year

In 2012-13, the Government reported an annual surplus of \$119 million. This compares to the budgeted surplus of \$77 million and the previous year's surplus of \$74 million. The variance of \$42 million from the budgeted surplus is largely due to higher than expected income tax revenue (\$22 million) and lower than expected expenses (\$24 million).

The surplus for the year of \$119 million was an increase of 60%, or \$45 million, from the previous year. Revenues increased by \$96 million while expenses increased by \$51 million (net of prior years' expense recovery). The largest increase in revenues was the formula financing grant from the Government of Canada, which increased by \$62 million, or a 9% increase. Corporate and personal income taxes revenue increased by \$14 million, or a 17% increase, from the previous year. Expenses increased in all functions, amounting to a 5% increase overall.

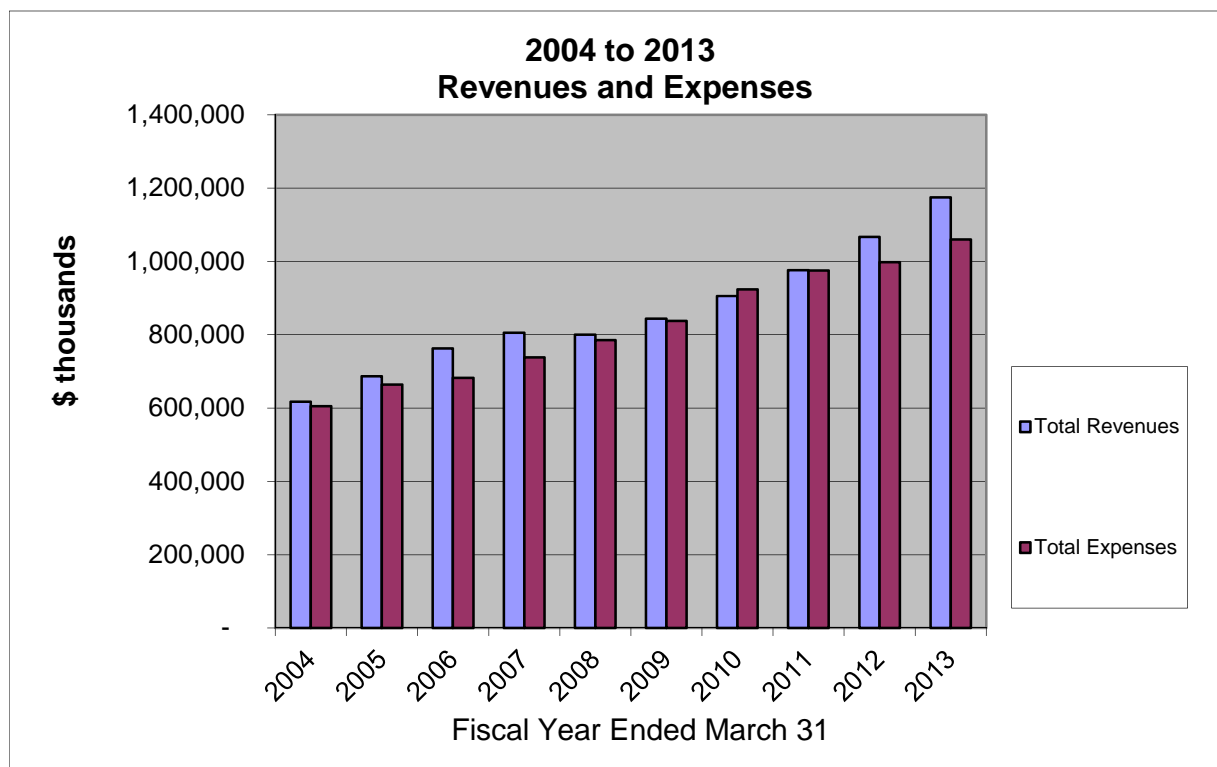
The Government's annual surplus or deficit resulting from its operations is dependent on various factors. Two of the most significant factors are:

- 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.

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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.



Net Financial Assets and Accumulated Surplus

At March 31, 2013, the Government's financial assets exceeded its liabilities, resulting in net financial assets of \$281 million (\$196 million at March 31, 2012). This important indicator shows that the Government has financial assets 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 2013 fiscal year, Yukon and Alberta were the only two Canadian jurisdictions that had net financial assets, rather than net debt.

The Government's net financial assets increased by \$85 million in 2012-13 due to the \$119 million surplus for the year. Net financial assets are affected by expenditures on tangible capital assets. In 2012-13, the net effect of tangible capital assets related activities on financial assets, which was not reflected in the annual surplus, was a decrease of \$33 million (also a decrease of \$52 million in 2011-12).

Accumulated surplus consists of net financial assets and non-financial assets such as tangible capital assets. The accumulated surplus of the Government at March 31, 2013 was \$1.5 billion (\$1.4 billion at March 31, 2012).

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Revenues

In 2012-13, the Government's total revenues increased by 9% (\$96 million), to \$1.2 billion, from the previous year.

The Government receives the majority of its revenues from the Government of Canada as a formula financing grant. In 2012-13, the Government received \$767 million as a formula financing grant. This was an increase of \$62 million, or 9%, from the previous year.

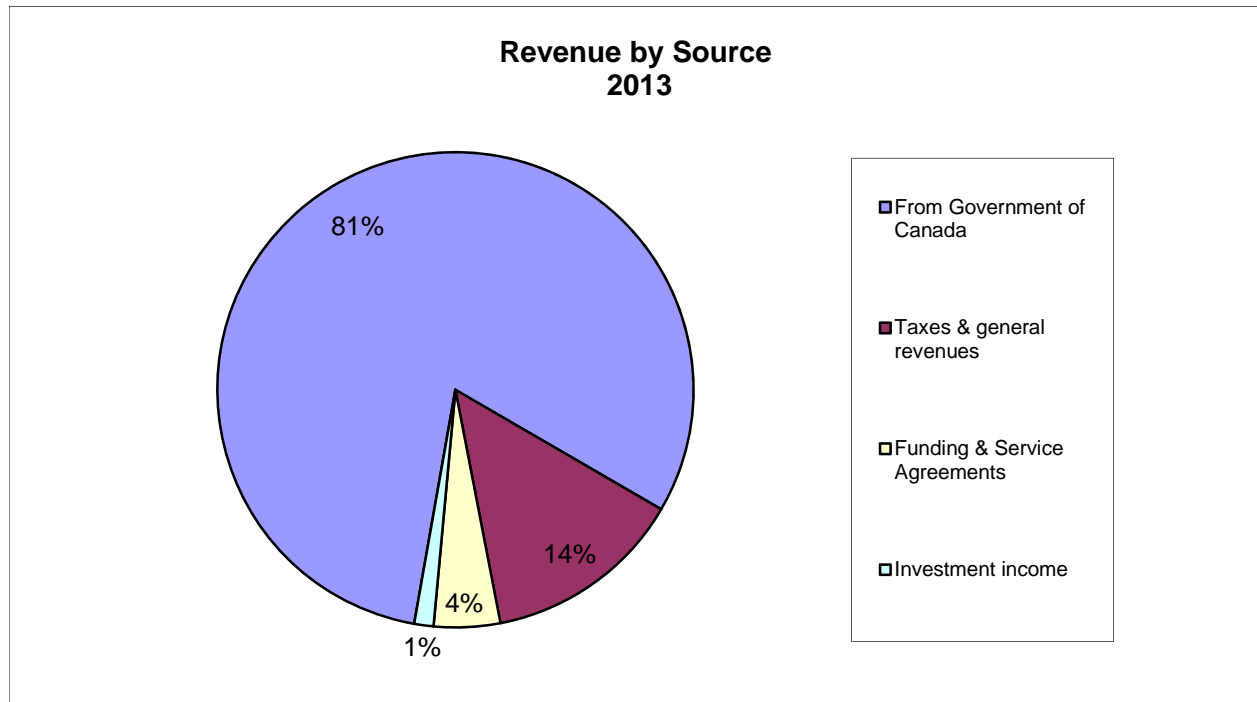
In addition to the formula financing grant, the Government receives funding from the Government of Canada for purposes such as health and social programs and education.

Taxes and general revenues include taxes on corporate income, personal income, tobacco, liquor, fuel, insurance premium and property as well as licences and fees such as motor vehicle licences and business/professional fees. Taxes and general revenues increased by 10% (\$14 million), to \$159 million, from the previous year. This was largely due to an increase in corporate and personal income taxes revenue by 17% (\$14 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 2012-13, the composition between different types of revenue remained consistent with previous years.

Revenue by source is illustrated in the chart below:



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Expenses

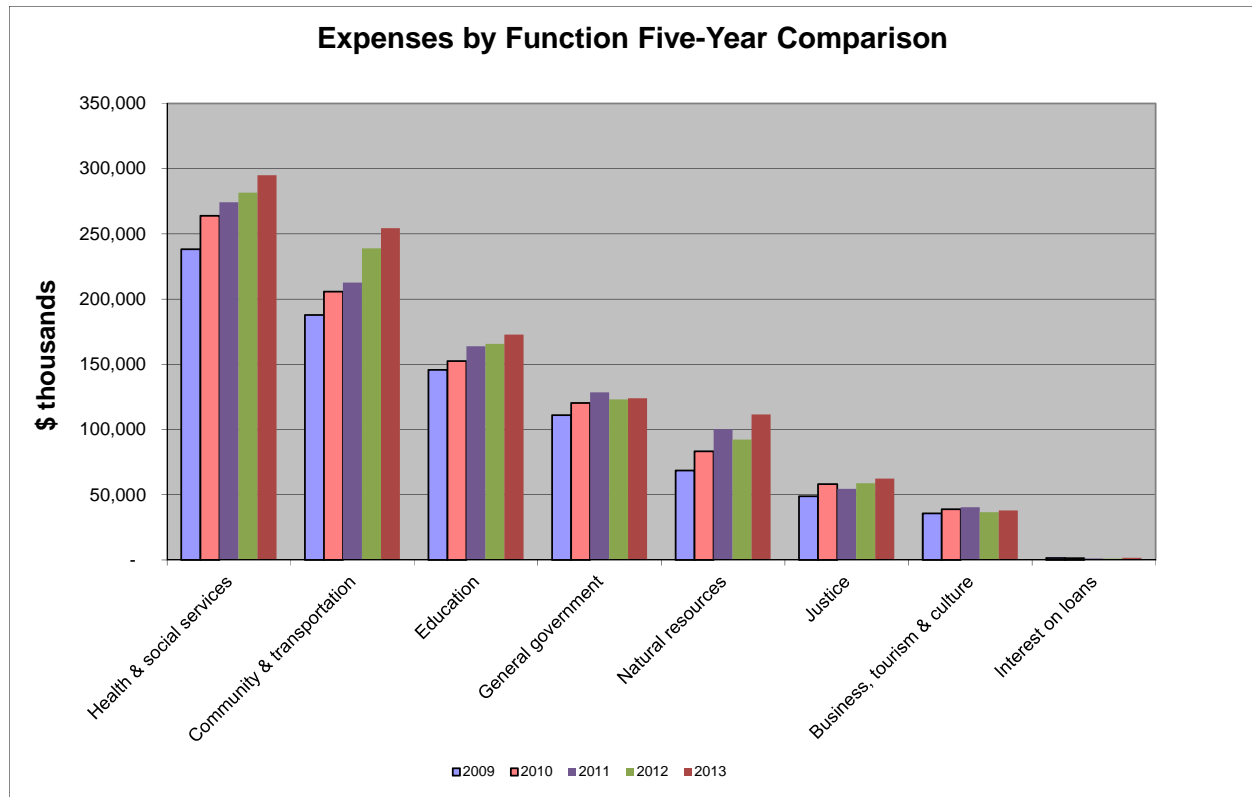
In 2012-13, the ratio of expenses by function remained consistent with the previous year, with health and social services, community and transportation, and education comprising 68% of total expenses (69% in 2011-12).

Overall, expenses increased by 5% (\$54 million), to \$1.1 billion, from the previous year. The largest increase was in the natural resources function, with an increase of \$19 million, followed by a \$14 million increase in health and social services.

The increase in natural resources expenses was mainly due to an increase in abandoned mine sites reclamation expenditures, especially for the work done on the abandoned mine site in Faro. The Government expended \$33 million in 2012-13 (\$25 million in 2011-12) for these sites. These projects are funded entirely by the Government of Canada.

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.

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



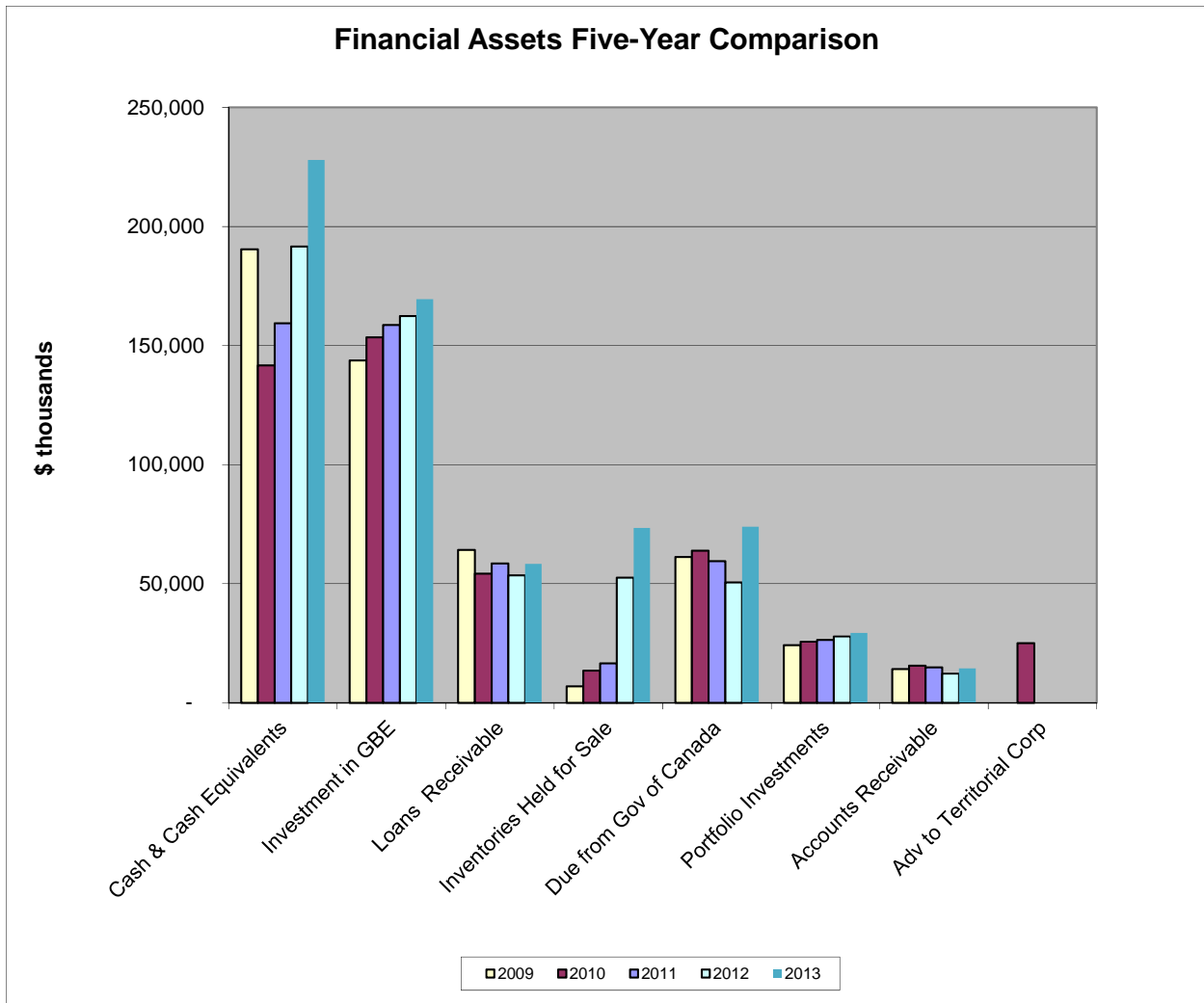
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Assets

Financial Assets

Financial assets consist of assets available to discharge existing liabilities or to finance future activities. At March 31, 2013, the value of total financial assets was \$647 million, which is an increase of \$96 million from the previous year. Within financial assets, cash and cash equivalents increased by \$36 million, or 19%, from the previous year. Cash and cash equivalents of \$228 million accounted for 35% of 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

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, 2013, the Government held \$228 million in cash and cash equivalents, which is an increase of \$36 million from the previous year. Of the \$228 million, \$40 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 \$168 million at March 31, 2013 (2012 - \$162 million). The Yukon Energy Corporation, which supplies and sells power in the Yukon, is the wholly-owned subsidiary of YDC.

Loans receivable

The Government had loans receivable of \$58 million, of which 65%, or \$38 million, were Yukon Housing Corporation mortgages receivable, followed by 13%, or \$8 million, in land-sale related loans receivable that are also administered by the Yukon Housing Corporation. The \$58 million receivable is net of allowance for doubtful accounts of \$1 million. The Government does not expect any significant losses resulting from doubtful accounts.

Inventories held for sale

Inventories held for sale totalled \$73 million as of March 31, 2013. This was an increase of \$21 million, or 40%, from the previous year. The inventories largely consist of lots that were developed by the Government for sale to the public. In 2012-13, the Government spent \$24 million to develop mainly residential lots. Of the \$24 million, \$21 million was spent on the 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 subdivision became available for purchase in September 2012.

Due from Government of Canada

At March 31, 2013, the Government had receivables from the Government of Canada in the amount of \$74 million, 91% of which were outstanding claims on cost sharing agreements and projects delivered on behalf of the federal government.

Portfolio investments

At March 31, 2013 the Government held investments in Floating Rate Notes ("FRNs") with a carrying value of \$29 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 \$31 million as of March 31, 2013. Further details of these investments are described in notes 7 and 18 to the consolidated financial statements.

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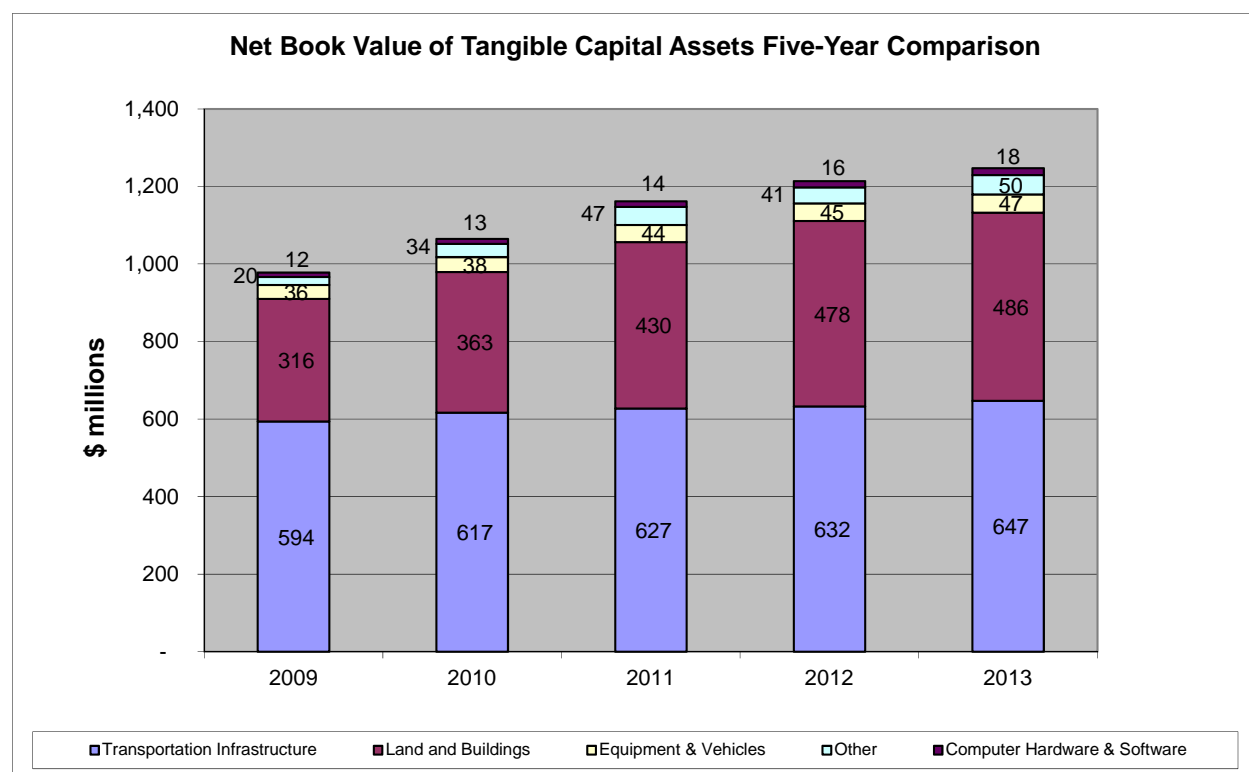
Non-financial Assets

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 of supplies, and prepaid expenses, of which the largest category is tangible capital assets.

Tangible capital assets

At March 31, 2013, the Government owned and used tangible capital assets valued at \$1.25 billion for its program delivery, an increase of \$33 million from the previous year value of \$1.21 billion.

Tangible capital assets by type as a five-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 2012-13, the Government made the following investment in tangible capital assets:

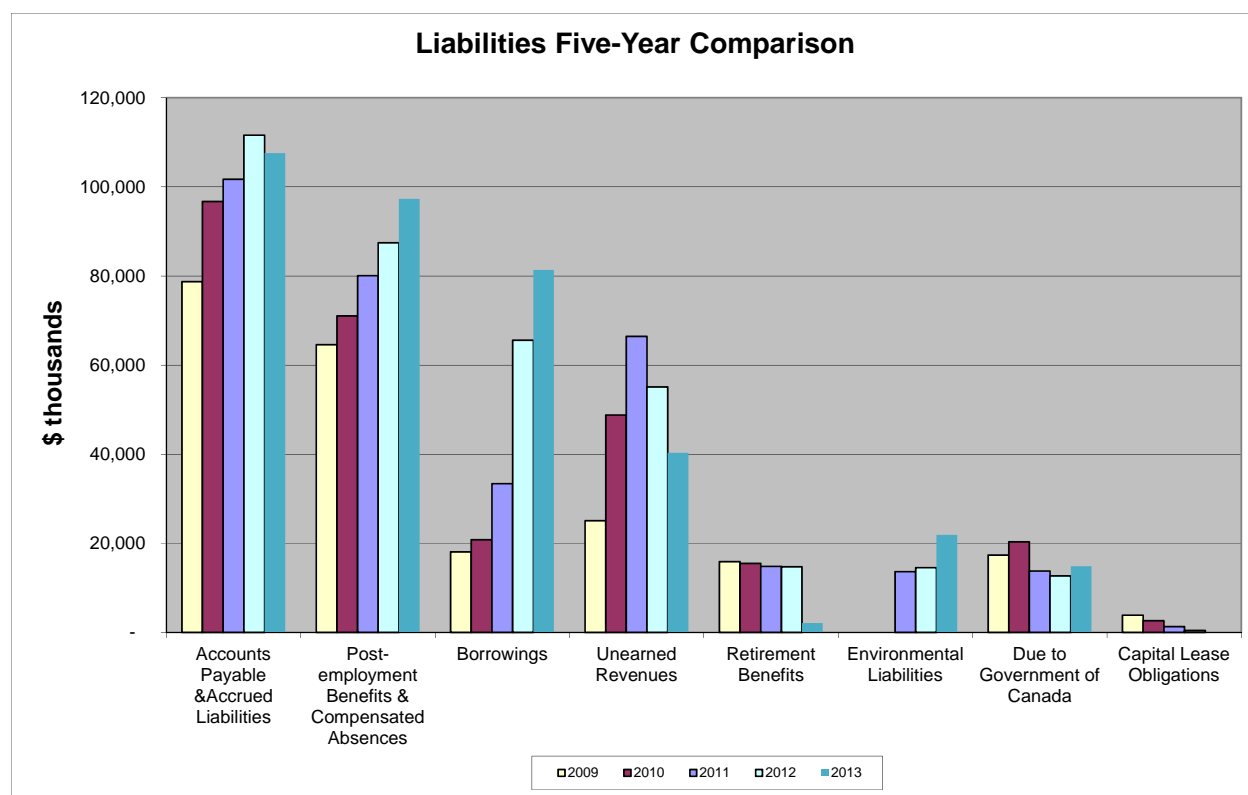
Opening balance at April 1, 2012	\$ 1,214 million
Investment during the year	89 million
Less: Disposal and write-downs	(5) million
Amortization	(51) million
Balance at March 31, 2013	\$ 1,247 million

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Liabilities

At March 31, 2013, the liabilities of the Government totaled \$366 million (\$354 million at March 31, 2012), which is equivalent to 57% of the financial assets of the Government. A five-year comparison of the Government’s liabilities by category is illustrated below:



(Note: Prior year amounts are shown as reported in the respective year’s Public Accounts).

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 \$108 million is a decrease of 4% from the previous year’s total of \$112 million.

Post-employment benefits and compensated absences

The Government’s second largest liability, after accounts payable and accrued liabilities, is post-employment benefits and compensated absences. Post-employment benefits are provided to employees after employment but before retirement. These benefits consist of severance pay and a portion of sick leave and vacation leave that are paid out to employees at termination of employment. Compensated absences are benefits for employees to be absent while being paid. The Government uses actuaries to estimate its post-employment benefits and compensated absences liabilities. The post-employment benefits and compensated absences liabilities at March 31, 2013 were \$97 million (\$92 million at March 31, 2012).

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Borrowings

The largest portion of the \$81 million reported as borrowings relates to the Yukon Hospital Corporation's subscribed portion of demand construction facility loans and demand term installment loans totaling \$66 million (\$52 million at March 31, 2012). 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.

Mortgages and loans payable by the Yukon Housing Corporation represent a further \$10 million (\$13 million at March 31, 2012) 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 \$40 million reported as of March 31, 2013 (\$55 million at March 31, 2012), 82%, or \$33 million, was unspent monies received under the Building Canada Fund.

Retirement benefits

At March 31, 2013, the retirement benefits liability of \$2 million represented a net amount of the Government's extended health benefits, which are provided to retired employees, and various pension plan liabilities (assets). Pension plan liabilities (assets) that are included in the \$2 million are those for the Members of the Yukon 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 totaling \$35 million. This amount is offset by liabilities in the amount of \$37 million for the Government of Yukon employees' extended health care retirement benefit and other retirement benefit liabilities, resulting in the net liability of \$2 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 \$37 million to the Public Service Pension Plan in 2012-13 as the employer's share (\$35 million in 2011-12).

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 \$20 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 in lieu of making solvency payments.

Environmental liabilities

At March 31, 2013, the Government has recorded \$22 million (\$16 million at March 31, 2012) 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. More information on the Government's environmental liabilities is provided in note 12 of the financial statements.

Due to Government of Canada

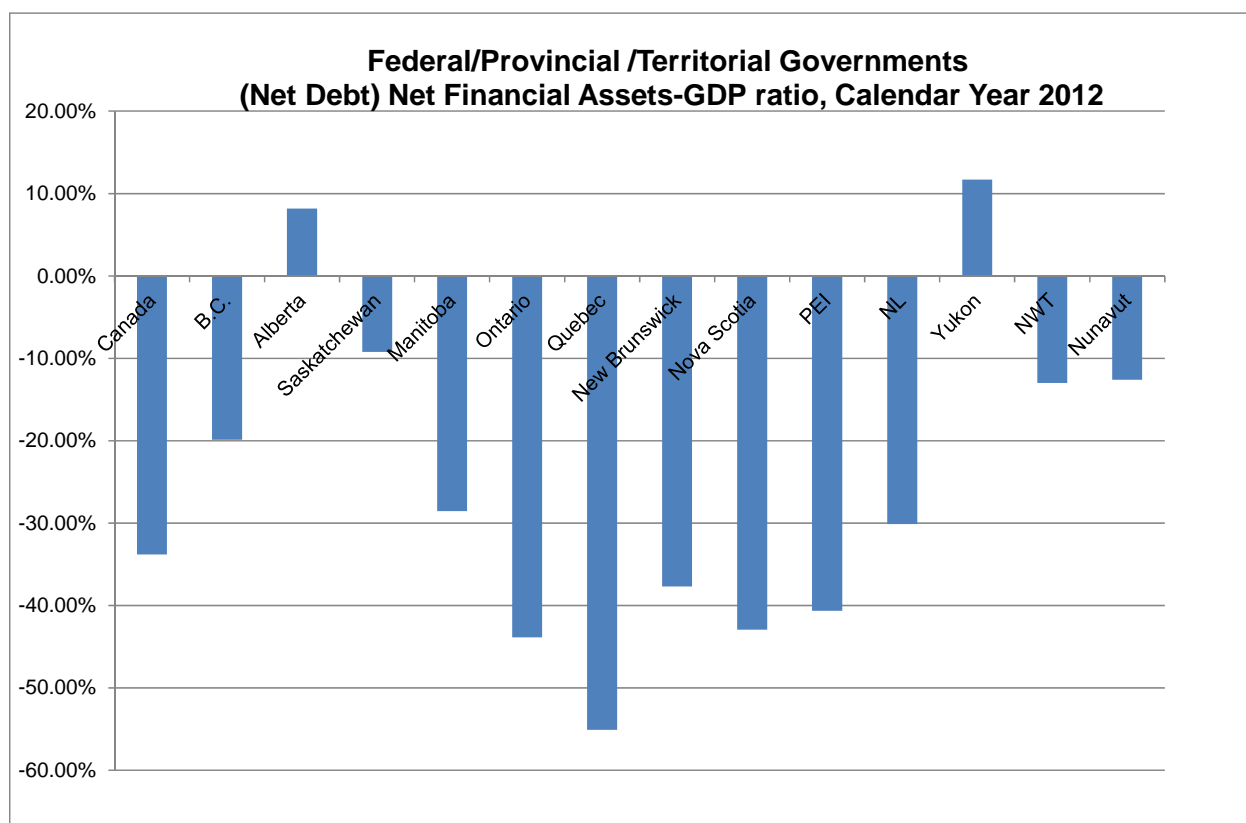
Accounts payable for the policing services provided by RCMP in the Yukon represents \$6 million, or 42%, of the \$15 million payable to the Government of Canada. The Government annually pays approximately \$20 million to RCMP for these services. Another \$6 million was for Public Service Pension Plan contributions payable for the month of March 2013.

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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 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 2012 based on preliminary estimates. Canada's GDP is based on 2012 published figure. (Net Debt) Net Financial Resources – as at March 31, 2013 based on released Public Accounts (March 31, 2012 if the information was not available at the time of publication).

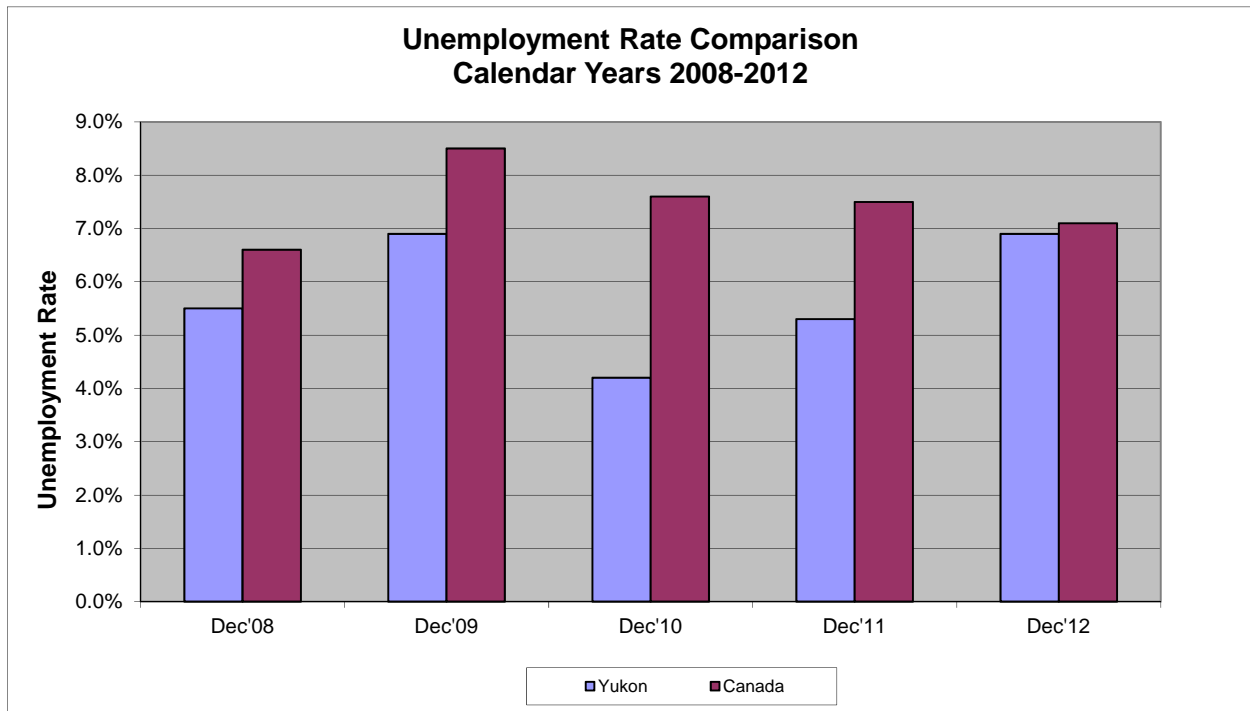
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Unemployment rate (Calendar Year 2012)

Yukon's unemployment rate was 6.9% in December 2012, which was below the national average of 7.1%.

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