

## GOVERNMENT OF YUKON

### Financial Statement Discussion and Analysis for the year ended March 31, 2014

#### Introduction

The Yukon 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 Yukon Public Accounts. Responsibility for the preparation of this discussion and analysis rests with management of the Department of Finance.

#### 2013-14 Highlights

- The Government reported an annual surplus of \$92 million compared to a \$119 million surplus in 2012-13. Total revenues increased by \$37 million, or 3%, while expenses increased by \$66 million, or 6%, from the previous year. The increase in total revenues was largely due to a \$49 million increase in Formula Financing grant from the Government of Canada. Sixty percent of the \$66 million increase in expenses were in health and social services and education.
- The annual surplus of \$92 million was \$9 million or 10% higher than the initially planned surplus of \$83 million. The increase was largely due to higher than expected revenues, particularly in income taxes, while expenses remained close to the budgeted amount. The excess of expenses, net of prior years’ expense recoveries, over the initially budgeted expenses of \$1.1 billion was \$4 million.
- The Government of Yukon continues to be in a positive net financial asset position, with a balance at March 31, 2014 of \$346 million. To have net financial assets means a government has more financial assets than liabilities readily available to finance its future operations.
- In 2013-14, the Government spent \$82 million for the development of tangible capital assets such as buildings and transportation infrastructure, compared to \$89 million in the previous year. The Yukon Hospital Corporation, an entity that is consolidated in these financial statements, finished constructing two new hospitals in 2013-14. As of March 31, 2014, the Yukon Hospital Corporation has spent \$28 million on the Watson Lake Hospital which opened in July 2013; a further \$32 million was spent on the Dawson City Hospital which opened in December 2013.
- During 2013-14, the Yukon Hospital Corporation paid down \$17 million of the \$66 million in loans primarily associated with the construction of the new residence/medical facility in Whitehorse, and the Dawson City and Watson Lake Hospitals.
- On September 17, 2014, Standard & Poor’s Rating Services affirmed its ‘AA’ long-term issuer credit rating on the Government of Yukon. At the same time, Standard & Poor affirmed its ‘AA’ issue-level rating on Yukon Development Corporation’s \$100 million in bonds. Standard & Poor stated that, in part, the ratings reflected their assessment of Yukon’s very low debt, strong economy, exceptional liquidity, and strong financial management. Standard & Poor also stated the stable outlook reflected their expectations that, in the next two years, Yukon’s budgetary performance would continue to be strong.

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#### **Surplus for the Year**

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 surplus of \$92 million for the year was a decrease of \$27 million, or 23%, from the previous year's surplus of \$119 million. Revenues increased by \$37 million while expenses (net of prior years' expense recoveries) increased by \$64 million.

Major revenue variances between current and prior year are summarized as follows:

- \$49 million, or 6%, increase in Formula Financing grant from the Government of Canada;
- \$6 million, or 6%, increase in corporate and personal income taxes;
- \$14 million, or 26%, decrease in funding and service agreements with other parties, which is largely due to lower funding on the Alaska Highway – Shakwak project; and,
- \$10 million, or 7%, decrease in contributions and service agreements from Canada, which is largely due to the winding down of the current Building Canada Fund.

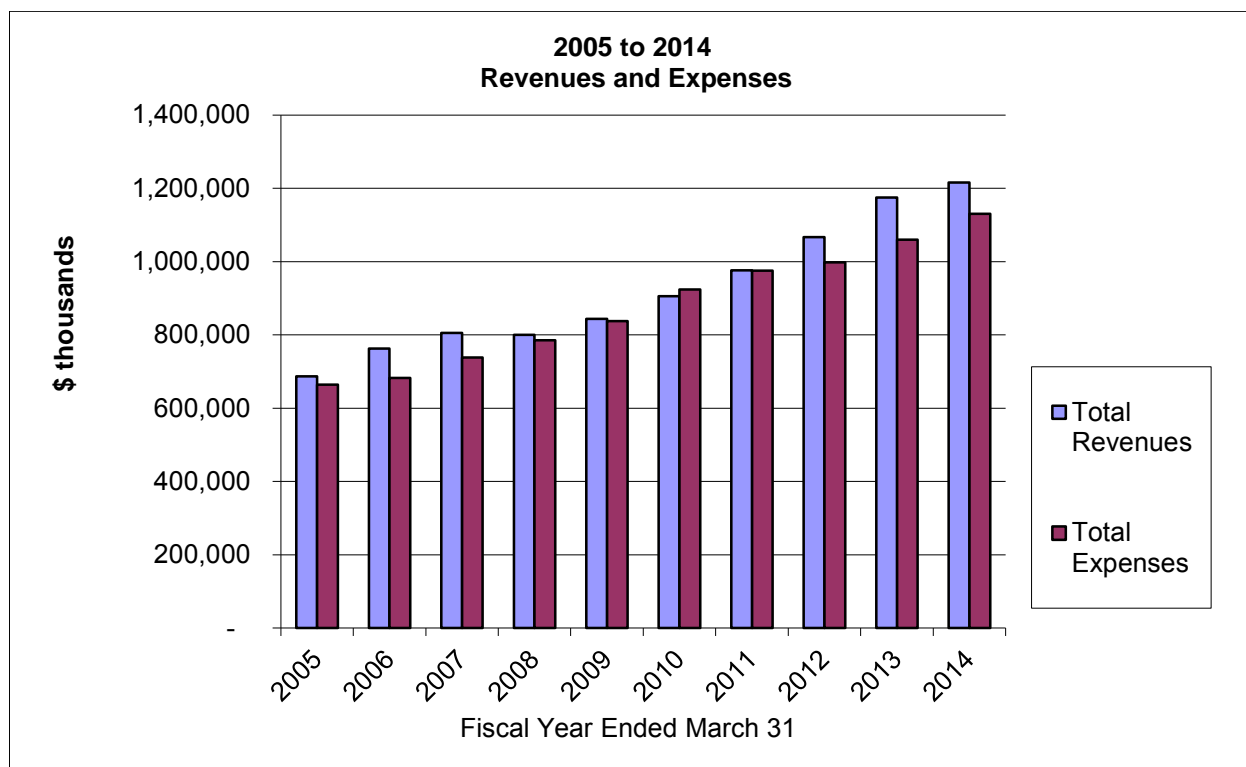
Expenses increased by \$66 million, or 6%, in all functions with expenditures for health and social services and education contributing to a majority of the increase.

The surplus for the year of \$92 million was an increase of \$9 million, or 10%, from the initially planned surplus of \$83 million. Revenues exceeded budgeted amounts by \$12 million, largely due to higher than expected income tax revenues. Actual expenses (net of prior years' expense recoveries) of \$1.125 billion were within 0.4% variance of the initially budgeted amount of \$1.121 billion.

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### Financial Statement Discussion and Analysis for the year ended March 31, 2014

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, 2014, the Government's financial assets exceeded its liabilities, resulting in net financial assets of \$346 million (\$279 million at March 31, 2013). This important indicator shows that the Government has financial assets on hand to finance future operations and that the Government is not dependent on future revenues to provide current services.

The Government's net financial assets increased by \$67 million in 2013-14 largely due to the \$92 million surplus for the year. Net financial assets are affected by expenditures on tangible capital assets. In 2013-14 the net effect of tangible capital assets related activities on financial assets, which was not reflected in the annual surplus, was a decrease of \$25 million (also a decrease of \$33 million in 2012-13).

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, 2014 was \$1.6 billion (\$1.5 billion at March 31, 2013).

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### **Financial Statement Discussion and Analysis for the year ended March 31, 2014**

#### **Revenues**

In 2013-14, the Government's total revenues increased from the previous year by \$37 million, or 3%, to \$1.2 billion.

The Government receives the majority of its revenues from the Government of Canada as the Formula Financing grant. In 2013-14, the Government received \$817 million as the Formula Financing grant. This was an increase of \$49 million, or 6%, 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, education as well as funding for infrastructure development. Contributions and service agreements from Canada decreased from the previous year by \$10 million, or 7%, to \$129 million.

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 from the previous year by \$15 million, or 9%, to \$176 million. This was largely due to an increase in corporate and personal income taxes (\$6 million) as a result of economic growth seen in the Yukon.

The funding and service agreements with other parties decreased from the previous year by \$14 million, or 26%, to \$41 million. This is largely due to a decrease in funding (\$17 million) received for work carried out on the Alaska Highway – Shakwak project.

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 ("GBE"). Government of Yukon business enterprises include the Yukon Liquor Corporation and the Yukon Development Corporation, which reports its results consolidating the Yukon Energy Corporation. Income from investment in GBE decreased from the previous year by \$3 million, or 21%, to \$12 million.

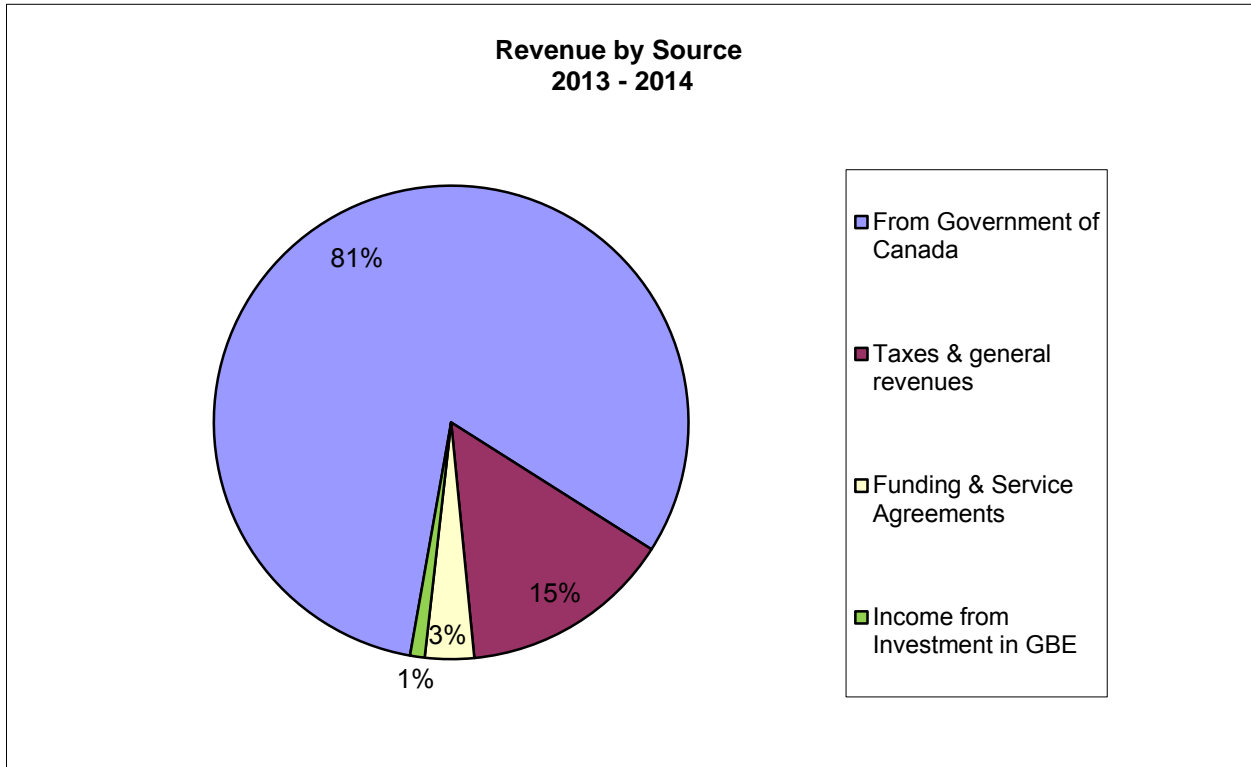
Revenues exceeded budgeted amounts by \$12 million, largely due to higher than expected income tax revenues.

In 2013-14, 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:



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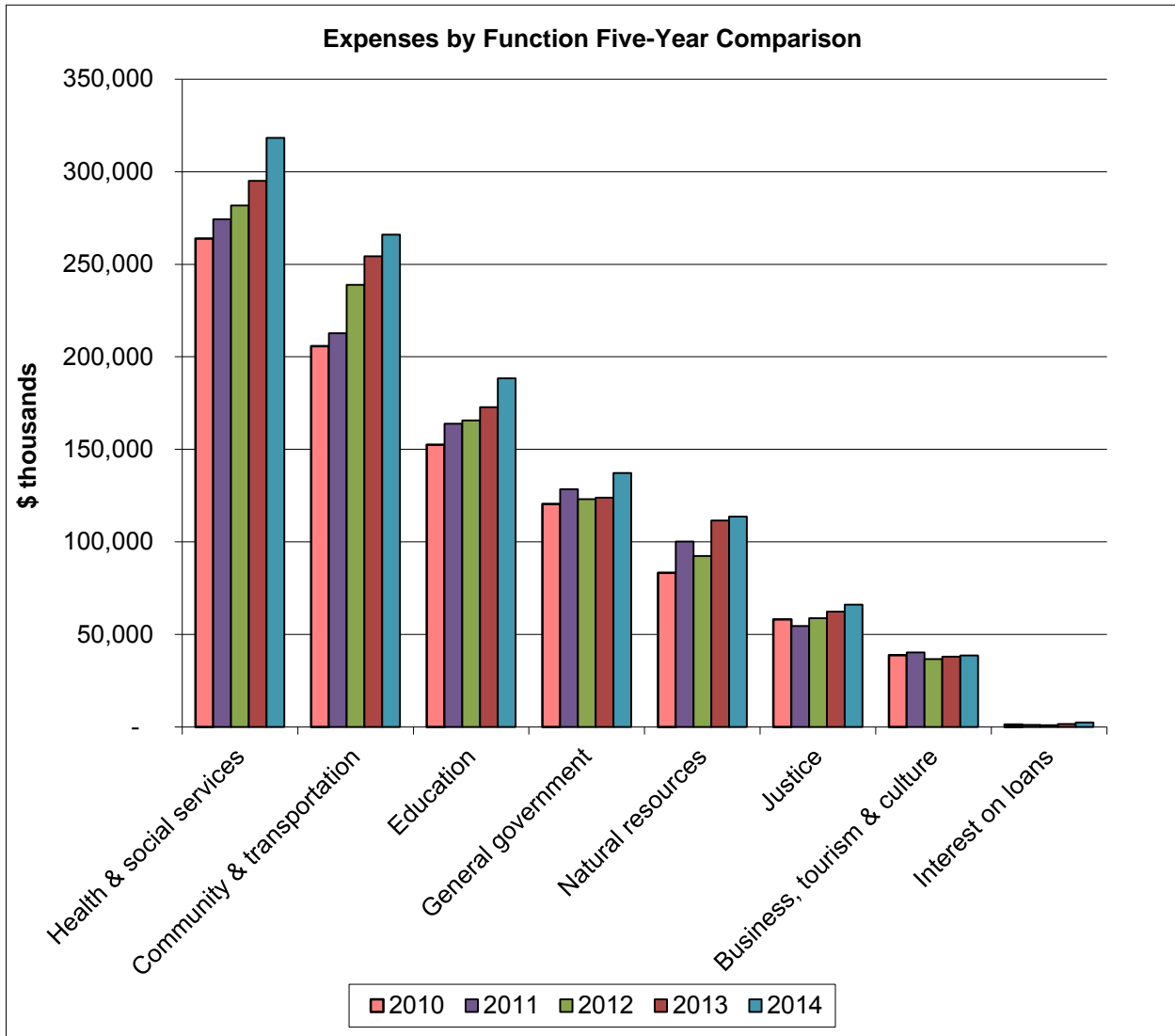
**Expenses**

In 2013-14, 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 (68% in 2012-13).

Overall, expenses increased from the previous year, by \$66 million, or 6%, to \$1.1 billion. The largest increase was in the health and social services function, with an increase of \$23 million, followed by a \$16 million increase in education.

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%). These percentages are consistent with those in previous years.

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



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

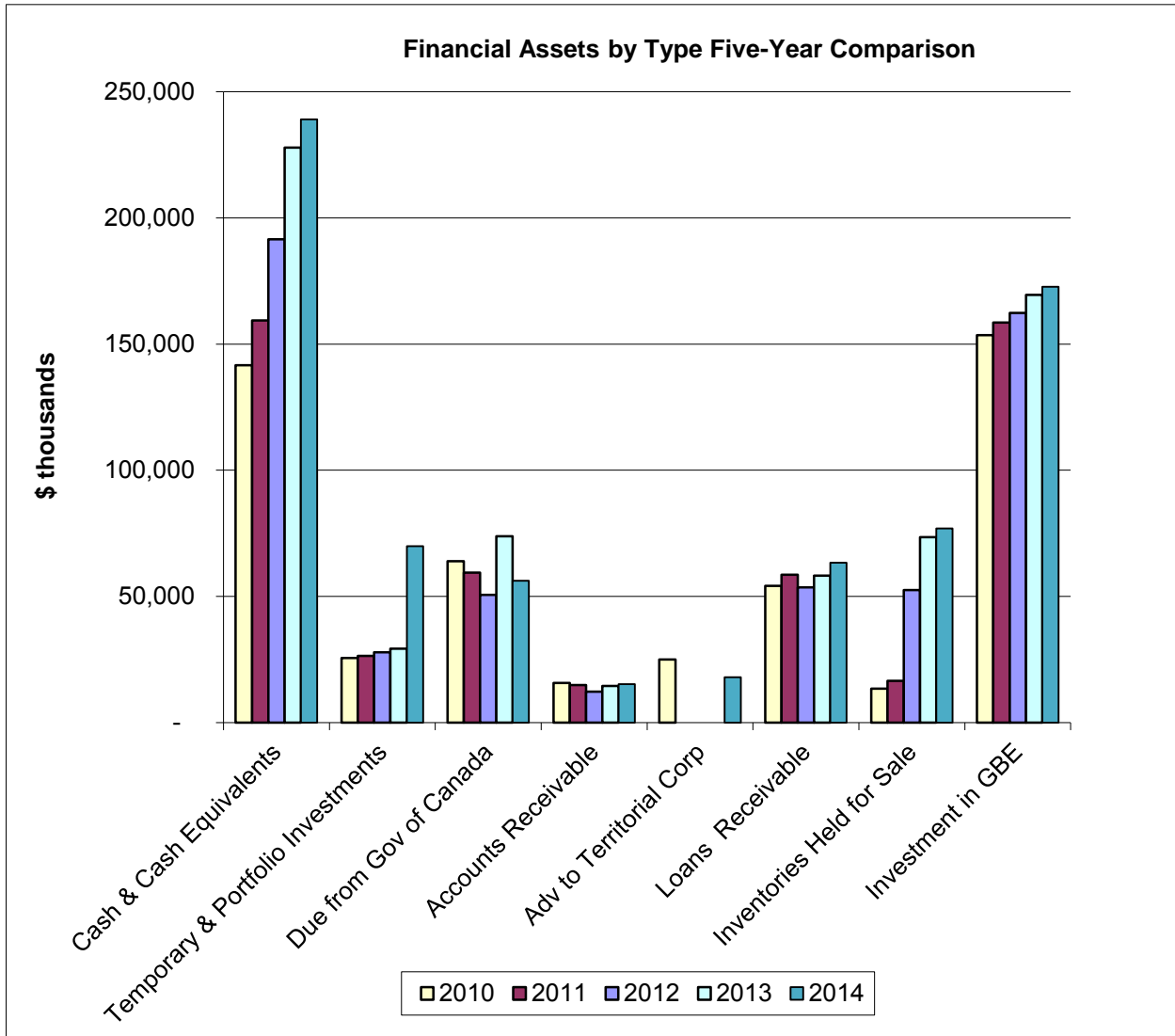
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**Assets**

**Financial Assets**

Financial assets consist of assets available to discharge existing liabilities or to finance future activities. At March 31, 2014, the value of total financial assets was \$711 million, which is an increase of \$41 million from the previous year. Within financial assets, cash and cash equivalents increased by \$11 million, or 5%, from the previous year. Cash and cash equivalents of \$239 million accounted for 34% of total financial assets.

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



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

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

#### Cash and cash equivalents

Cash and cash equivalents are bank balances, short-term investments that mature less than 90 days from the date of purchase and cash on hand.

At March 31, 2014, the Government held \$239 million in cash and cash equivalents, which is an increase of \$11 million from the previous year. Of the \$239 million, \$29 million is to be spent for specific purposes in the future (see "Unearned revenues" in the "Liabilities" section).

#### Temporary and portfolio investments

Temporary investments are investments with maturity dates longer than 90 days, at the time of purchase, but less than one year. Temporary investments include term deposits and funds that include banker's acceptance, bearer deposit notes and Government of Canada treasury bills. At March 31, 2014, the Government held \$12 million in temporary investments compared to \$1 million the previous year.

At March 31, 2014, the Government held portfolio investments in Floating Rate Notes ("FRNs"), with a carrying value of \$31 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 \$34 million as of March 31, 2014.

As of March 31, 2014, \$25 million of the temporary and portfolio investments were designated (\$24 million at March 31, 2013) in order to meet obligations under Part 3 (Supplemental Plan) of the *Legislative Assembly Retirement Allowances Act* (Yukon) as well as the "Severance allowance" section of the *Legislative Assembly Act* (Yukon).

#### Due from Government of Canada

At March 31, 2014, the Government had receivables from the Government of Canada in the amount of \$56 million, 90% of which were outstanding claims on cost-sharing agreements and projects delivered on behalf of the federal government.

#### Advances to Territorial corporations

In December 2013, the Government entered into a loan agreement with the Yukon Development Corporation ("YDC") and advanced an interest-bearing loan of \$18 million in order to assist in the development of the Whitehorse diesel – natural gas conversion project, which is being carried out by the Yukon Energy Corporation, YDC's wholly owned subsidiary. The initial term of the loan advance is March 31, 2015. Pursuant to the agreement, the loan may be extended for two additional six month terms upon mutual consent of the Government and YDC.

#### Loans receivable

The Government had loans receivable of \$63 million, of which \$42 million, or 67%, were Yukon Housing Corporation mortgages receivable, followed by \$8 million, or 13%, in land sale related loans receivable that are also administered by the Yukon Housing Corporation.



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Inventories held for sale

Inventories held for sale totalled \$77 million as of March 31, 2014. This was an increase of \$4 million, or 5%, from the previous year. The inventories largely consist of lots that were developed by the Government for sale to the public. In 2013-14, the Government spent \$11 million to develop mainly residential lots. Of the \$11 million, \$9.7 million was spent on the Whistle Bend subdivision in the City of Whitehorse.

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 \$172 million at March 31, 2014 (2013 - \$168 million). The Yukon Energy Corporation, which supplies and sells power in the Yukon, is the wholly-owned subsidiary of YDC.

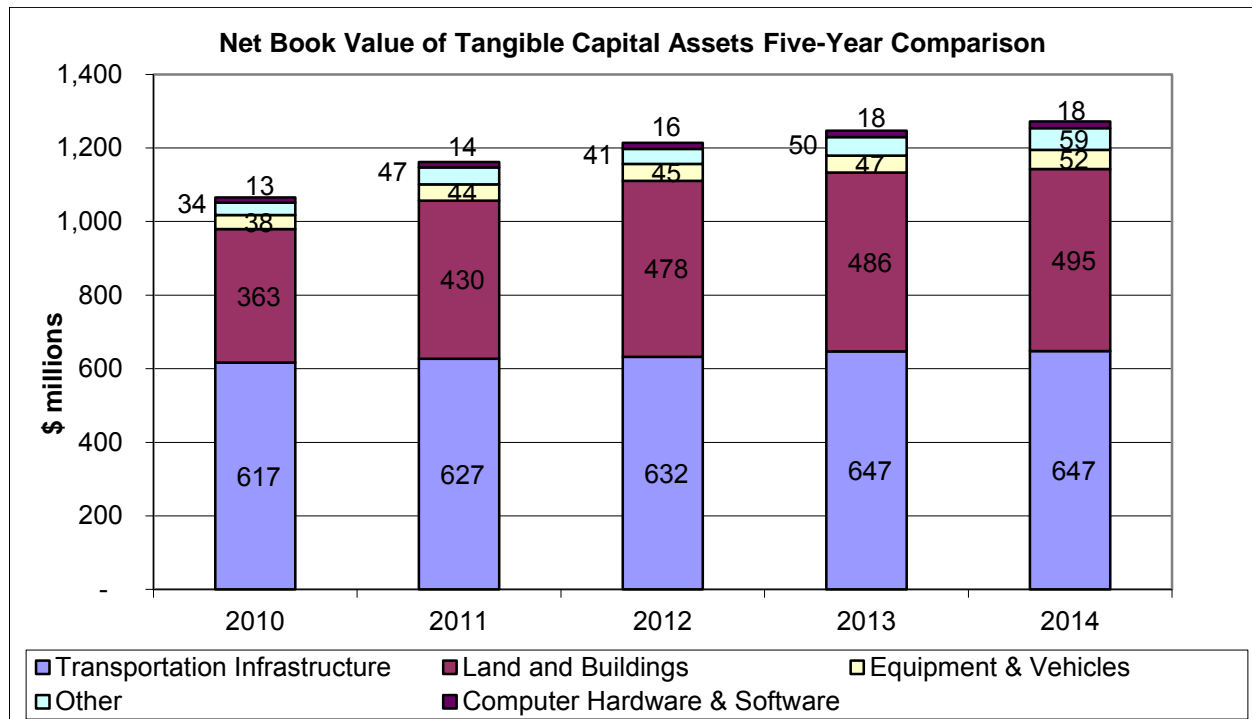
**Non-financial Assets**

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, 2014, the Government owned and used tangible capital assets with a net book value of \$1.27 billion for its program delivery, an increase of \$25 million from the previous year net book value of \$1.25 billion.

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



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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 a tangible capital asset.

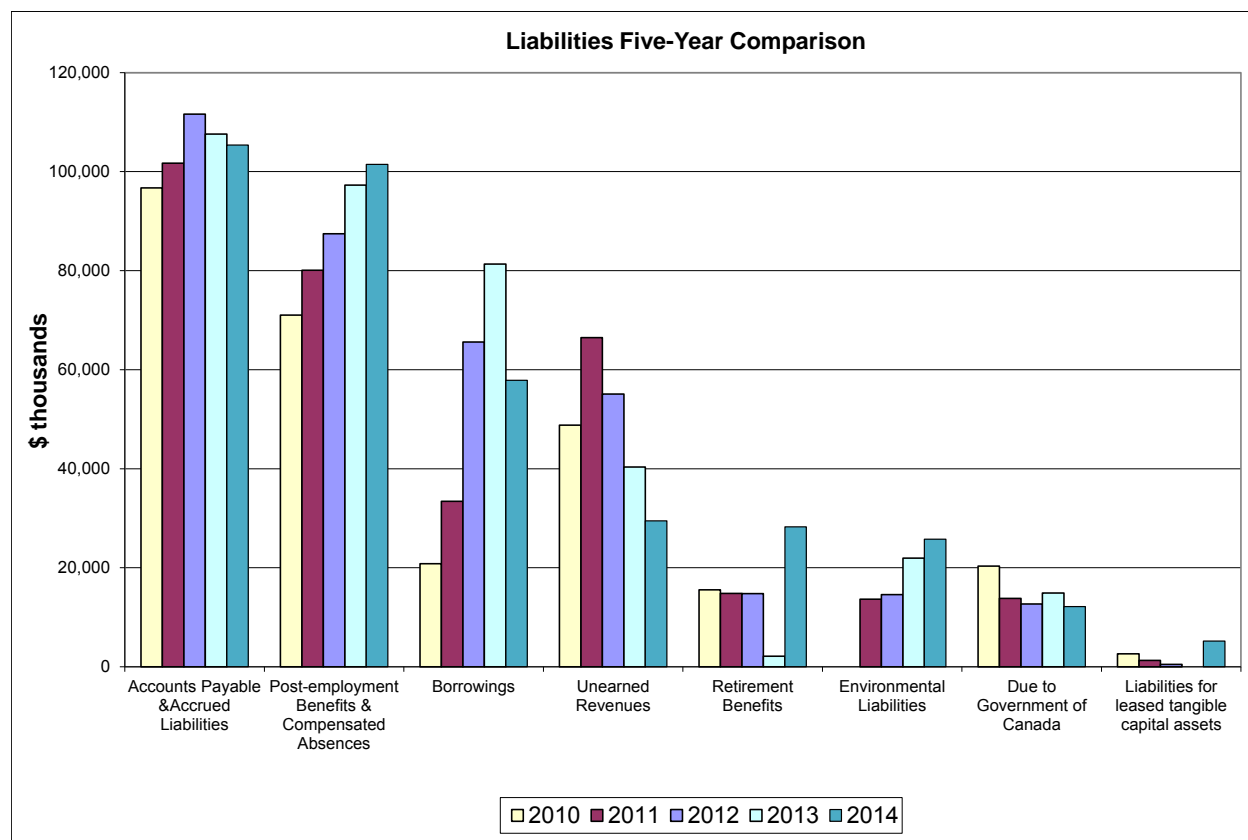
In 2013-14, the Government made the following investment in tangible capital assets:

Opening balance at April 1, 2013	\$ 1,247 million
Investment during the year	82 million
Less: Disposals and write-downs	(3) million
Amortization	(54) million
<b>Balance at March 31, 2014</b>	<b>\$ 1,272 million</b>

The Government's \$82 million investment was largely spent on buildings and transportation infrastructure.

**Liabilities**

At March 31, 2014, the liabilities of the Government totaled \$366 million (\$392 million at March 31, 2013), which is equivalent to 51% 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).

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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 \$105 million is a decrease of 2% from the previous year's total of \$108 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, 2014 were \$101 million (\$98 million at March 31, 2013).

#### Borrowings

The largest portion of the \$58 million reported as borrowings relates to the Yukon Hospital Corporation's demand term installment loans totaling \$49 million (\$66 million at March 31, 2013). The Yukon Hospital Corporation used 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. During 2013-14 the Yukon Hospital Corporation paid down these loans by \$17 million.

Mortgages and loans payable by the Yukon Housing Corporation represent a further \$9 million (\$11 million at March 31, 2013) of the Government's borrowings.

#### Unearned revenues

Unearned revenues of \$29 million reported as of March 31, 2014 (\$40 million at March 31, 2013) are 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, \$25 million (\$33 million at March 31, 2013), or 86%, was unspent monies received under the Building Canada Fund.

#### Retirement benefits

Retirement benefits liability totaled \$28 million at March 31, 2014 (\$28 million at March 31, 2013) representing the Government's extended health benefit obligations, which are provided to retired employees, and various pension plan liabilities. Pension plan liabilities are those for the Members of the Yukon Legislative Assembly, Territorial Court judges and employees of Yukon College and the Yukon Hospital Corporation.

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 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 \$38 million to the Public Service Pension Plan in 2013-14 as the employer's share (\$37 million in 2012-13).

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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 \$20 million and the Yukon Hospital Corporation had a deficiency of \$15 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, 2014, the Government has recorded \$26 million (\$22 million at March 31, 2013) as a liability for the costs related to the remediation of contaminated sites for which the Government is responsible. Of the liabilities, \$10 million, or 38%, is for highway maintenance camps and \$7 million, or 27%, is for landfills that the Government is responsible for maintaining.

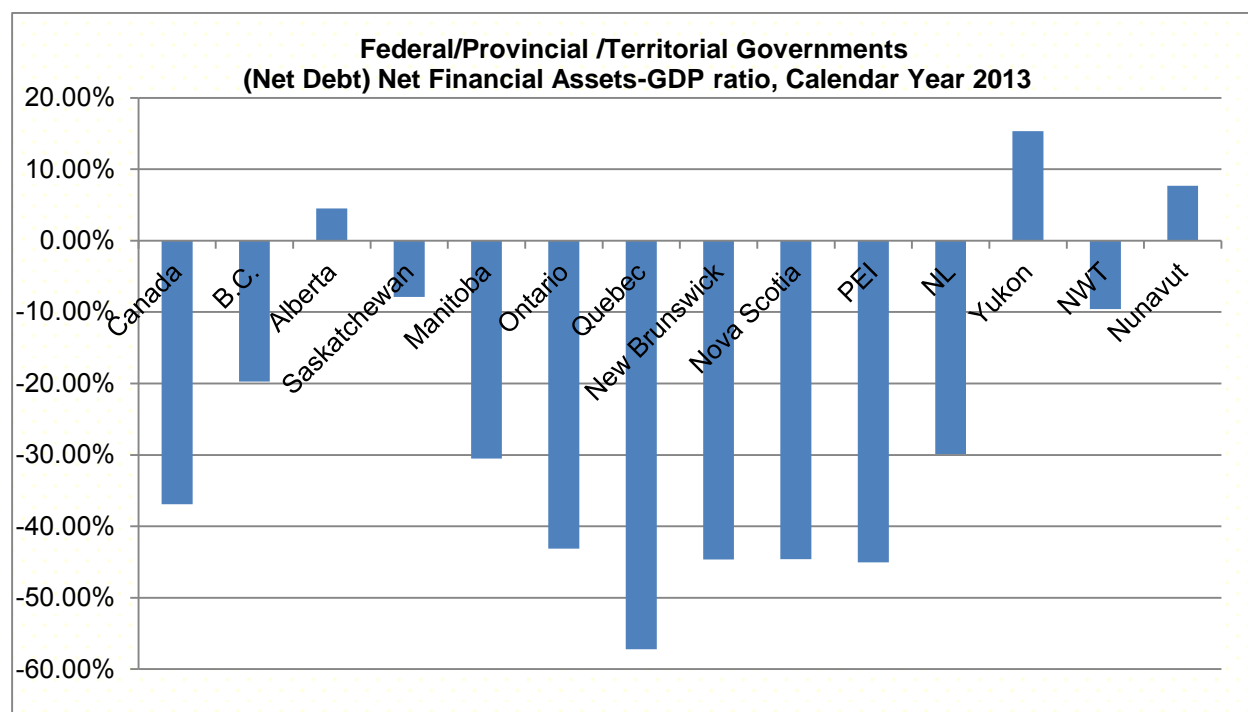
#### Due to Government of Canada

Accounts payable for the policing services provided by RCMP in the Yukon represents \$5 million, or 42%, of the \$12 million payable to the Government of Canada. The Government annually pays approximately \$20 million to RCMP for these services. Another \$5 million was for Public Service Pension Plan contributions payable for the month of March 2014.

#### 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, Nunavut 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 2013 based on preliminary estimates. Canada's GDP is based on 2013 published figure. Net Debt/Net Financial assets – as at March 31, 2014 based on released Public Accounts (March 31, 2013 if the information was not available at the time of publication).

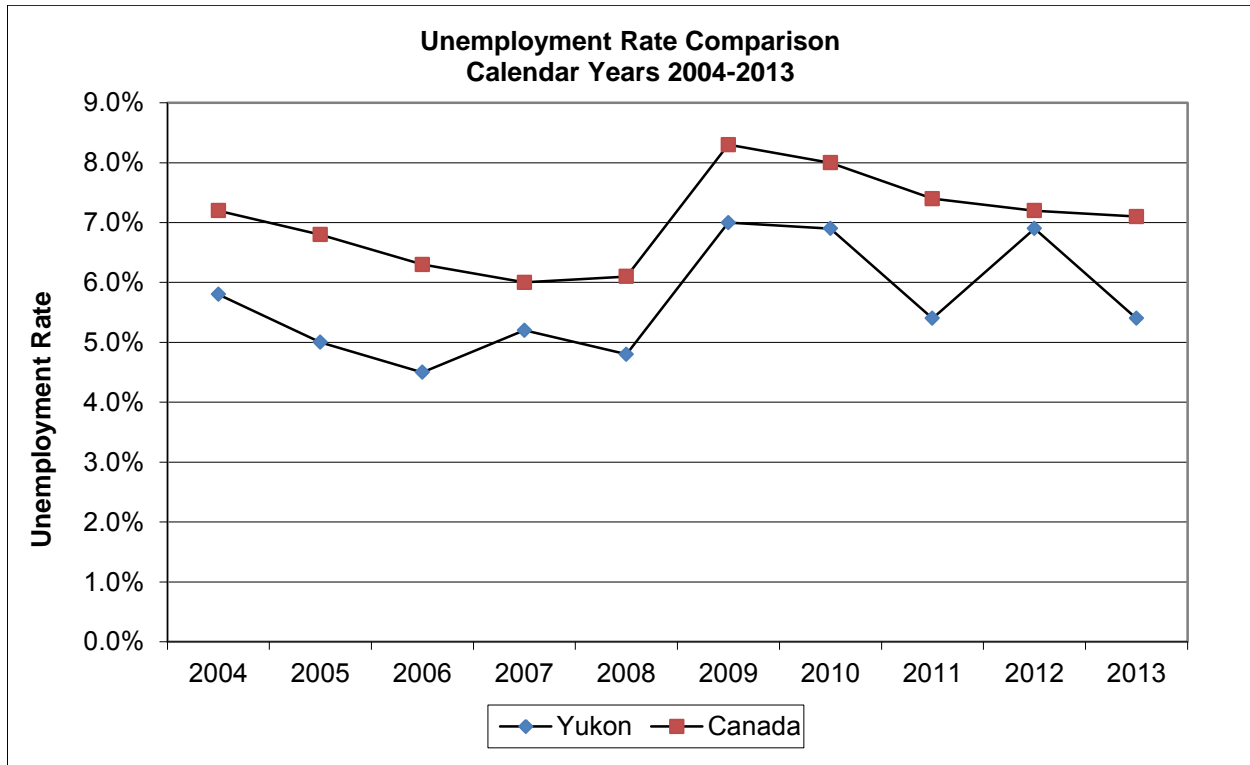
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Unemployment rate (Calendar Year 2013)

Yukon's unemployment rate averaged 5.4% in 2013, which was below the national average of 7.1%.

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



Source: Yukon Bureau of Statistics/Statistics Canada