

## GOVERNMENT OF YUKON

### **Financial Statement Discussion and Analysis for the year ended March 31, 2017**

#### **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.

#### **2016-17 Highlights**

- The Government reported an annual surplus of \$33 million compared to a \$51 million surplus in 2015-16. Total revenues increased by \$44 million (4%), while expenses increased by \$40 million (3%), from the previous year. Eighty percent of the \$40 million increase in expenses was in the health and social services function.
- The annual surplus of \$33 million was \$20 million (149%) higher than the initially planned surplus of \$13 million. Lower than expected revenues of \$28 million (2%), were offset with lower than expected expenses of \$43 million (3%) contributing to a higher than expected surplus. Revenues were lower than budget largely due to lower than expected contributions and service agreements with Canada while expenses were lower than budget largely due to lower than expected expenses in the health and social services and community and transportation functions.
- The Government continues to be in a positive net financial asset position, with a balance at March 31, 2017 of \$274 million. To have net financial assets means the government's financial assets exceed its financial liabilities.
- In 2016-17, the Government recorded tangible capital asset additions for the development of assets such as buildings and transportation infrastructure of \$151 million, compared to \$167 million in the previous year. In 2016-17, the Government spent a total of \$47 million on the replacement of the Sarah Steele building and the construction of the Whistle Bend Continuing Care Facility. The Sarah Steele building opened in the fall of 2016 with a total cost of \$21 million and the Whistle Bend Continuing Care Facility is scheduled to be completed in the fall of 2018 with a total projected cost of \$147 million.
- In 2016-17, the Government contributed \$22 million towards the Whitehorse General Hospital's expansion project. All phases of the expansion project are now complete and the official opening date is set for January 2018. The project was finished on budget at a cost of \$72 million.
- On September 27, 2017, Standard & Poor's Rating Services affirmed its 'AA' long-term issuer credit rating of Yukon Territory. Standard & Poor's stated that, in part, the ratings reflected their assessment of Yukon's strong liquidity, low debt burden, modest contingent liabilities, sound financial management and very low but positive economic growth in 2018 with faster growth returning in 2019.

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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:

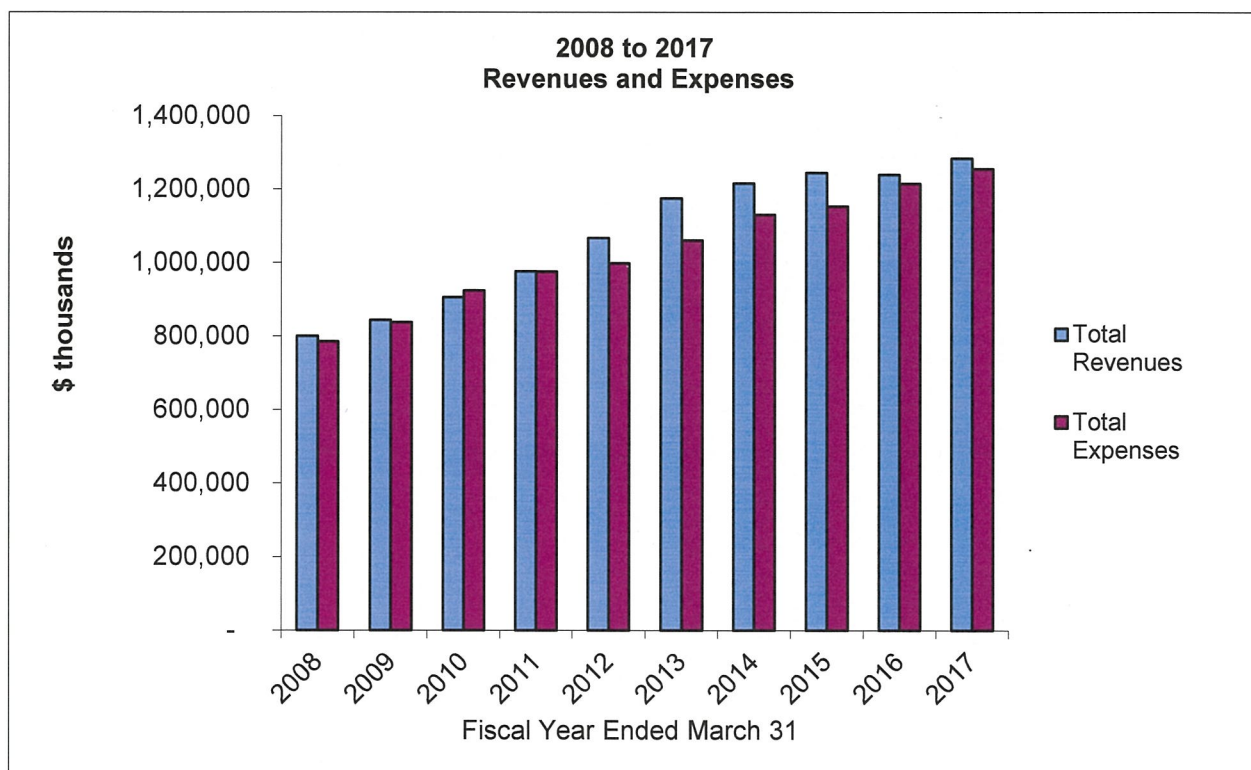
- total revenues, of which the Formula Financing grant from the Government of Canada makes up the largest share; and
- direct government spending and operating transfers to individuals and other public organizations, such as municipalities.

The surplus of \$33 million for the year was a decrease of \$18 million (35%) from the previous year's surplus of \$51 million and \$20 million (149%) more than the initially planned surplus of \$13 million. Revenues increased by \$44 million from the previous year's actual and were \$28 million less than initially planned. Actual expenses (net of prior years' expense recoveries) of \$1.25 billion for the year were less than the initially budgeted amount of \$1.30 billion.

Major revenue variances between current and prior year include a \$20 million (2%) increase in the Formula Financing grant from the Government of Canada, a \$18 million (13%) increase in taxes and general revenues, which is largely due to higher personal and corporate income taxes collected during the year, and a \$7 million increase in income from investment in government business enterprises.

Expenses increased by \$40 million (3%) with expenditures for health and social services contributing to the majority of the increase. Community and transportation, Natural Resources and interest on loans had decreases from prior year expenditures.

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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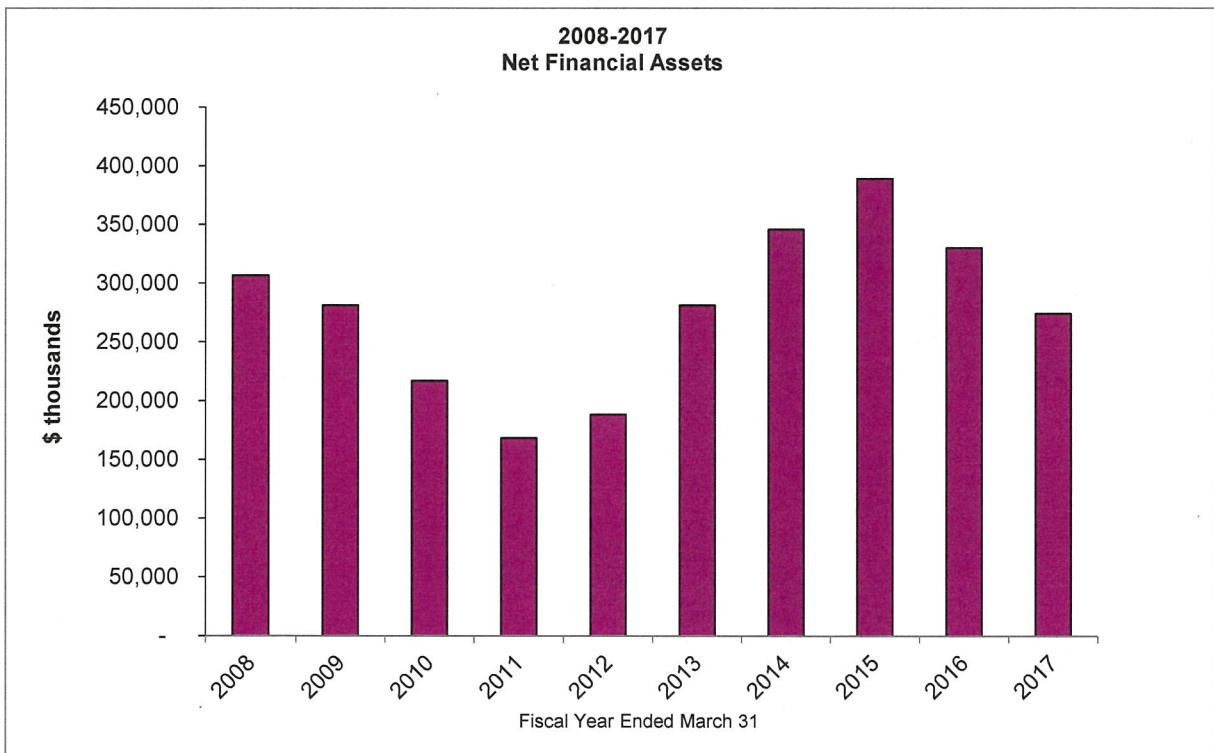
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**Net Financial Assets and Accumulated Surplus**

At March 31, 2017, the Government's financial assets exceeded its liabilities, resulting in net financial assets of \$274 million (\$330 million at March 31, 2016). This important indicator shows that the Government has financial assets on hand to finance future operations and that the Government was able to provide current services without depending on future revenues.

The Government's net financial assets decreased by \$56 million in 2016-17. This decrease was largely due to the acquisition of tangible capital assets. In 2016-17, the net effect of tangible capital assets related activities on net financial assets was a decrease of \$88 million (decrease of \$104 million in 2015-16).

The chart below illustrates net financial assets over the last ten years.



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

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, 2017 was \$1.8 billion (\$1.77 billion at March 31, 2016).

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### Financial Statement Discussion and Analysis for the year ended March 31, 2017

#### Revenues

In 2016-17, the Government's total revenues increased from the previous year by \$44 million (4%) to \$1.28 billion.

The Government receives the majority of its revenues from the Government of Canada through the Formula Financing grant, the Canada Health transfer and the Canada Social transfer. In 2016-17, the Government received \$895 million as the Formula Financing grant. This was an increase of \$20 million (2%) from the previous year. The Canada Health transfer was \$37 million and the Canada Social transfer was \$14 million. These transfers decreased from the previous year by a total of \$0.5 million (1%).

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 as well as funding for infrastructure development. Contributions and service agreements from Canada decreased from the previous year by \$9 million (8%) to \$114 million. This decrease was largely due to lower contributions for Type II mines and infrastructure development.

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 \$18 million (13%) to \$161 million. This was largely due to an increase in corporate and personal income taxes of \$16 million.

Funding and service agreements with other parties increased from the previous year by \$8 million (21%). This increase was largely due to increases in funding for Alaska Highway (Shakwak) and from third party health care costs.

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 increased from the previous year by \$7 million, or 74%, to \$16 million.

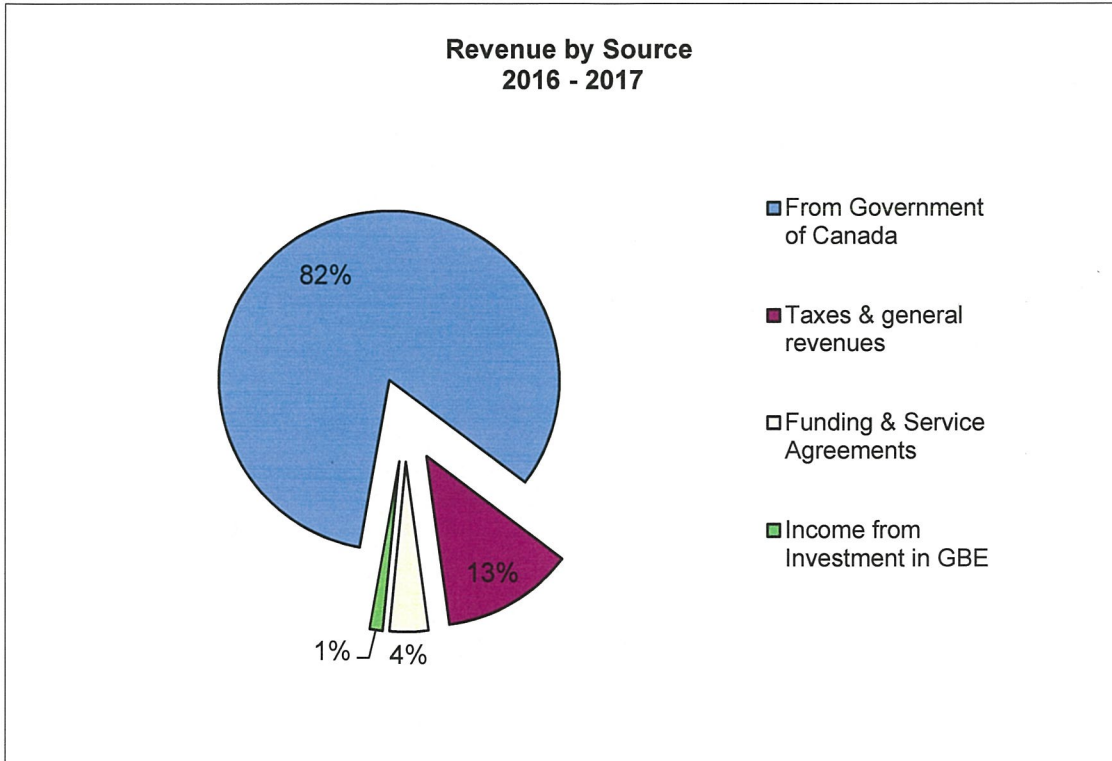
Revenues were less than the initially budgeted amounts by \$28 million. This was primarily due to lower than forecasted revenues from Canada.

In 2016-17, 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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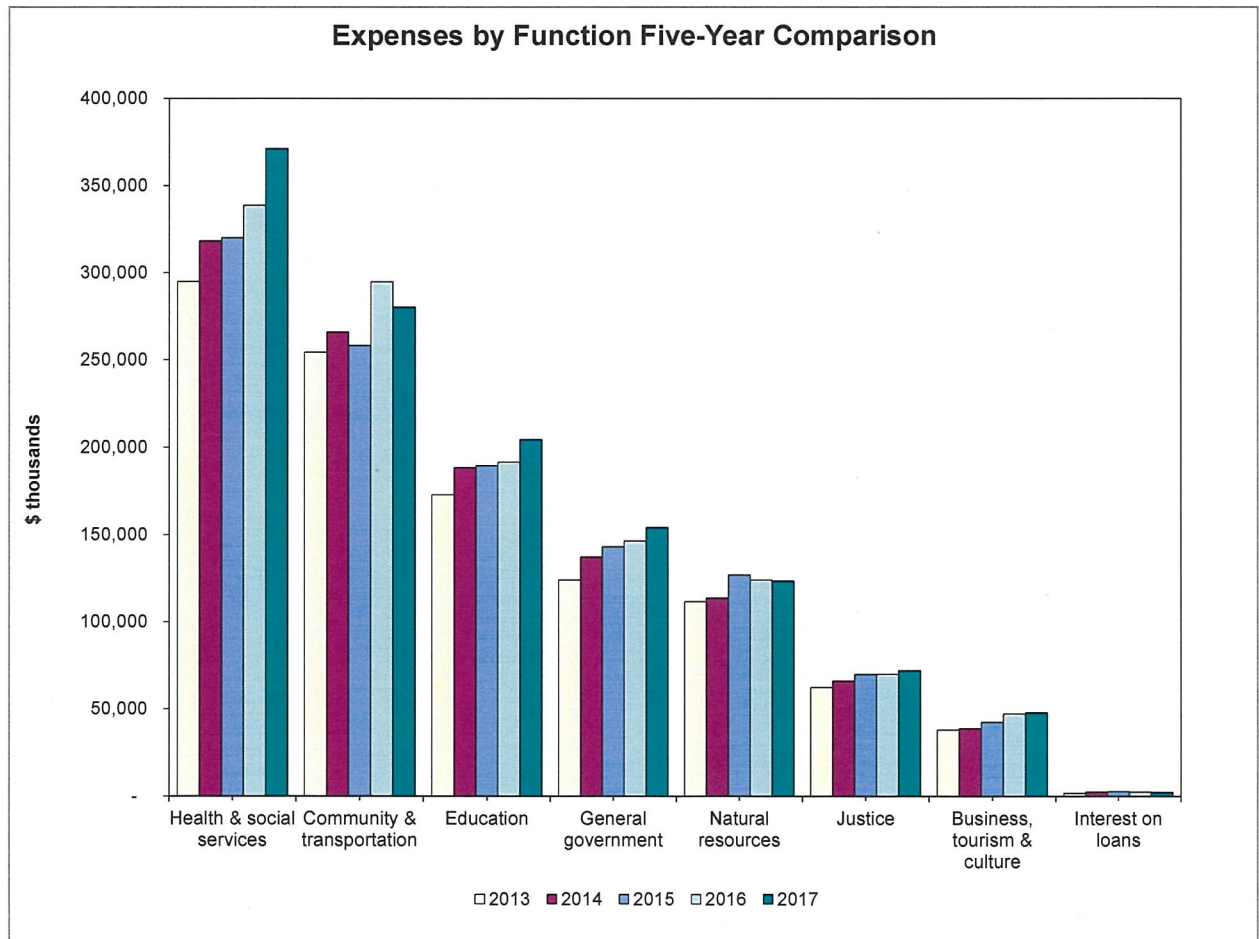
**Expenses**

Overall, expenses increased from the previous year by \$40 million (3%) to \$1.26 billion. The largest increase was in the health and social services function, with an increase of \$32 million, followed by a \$13 million increase in education while the community and transportation function decreased by \$15 million.

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

In 2016-17, 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 2015-16).

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).

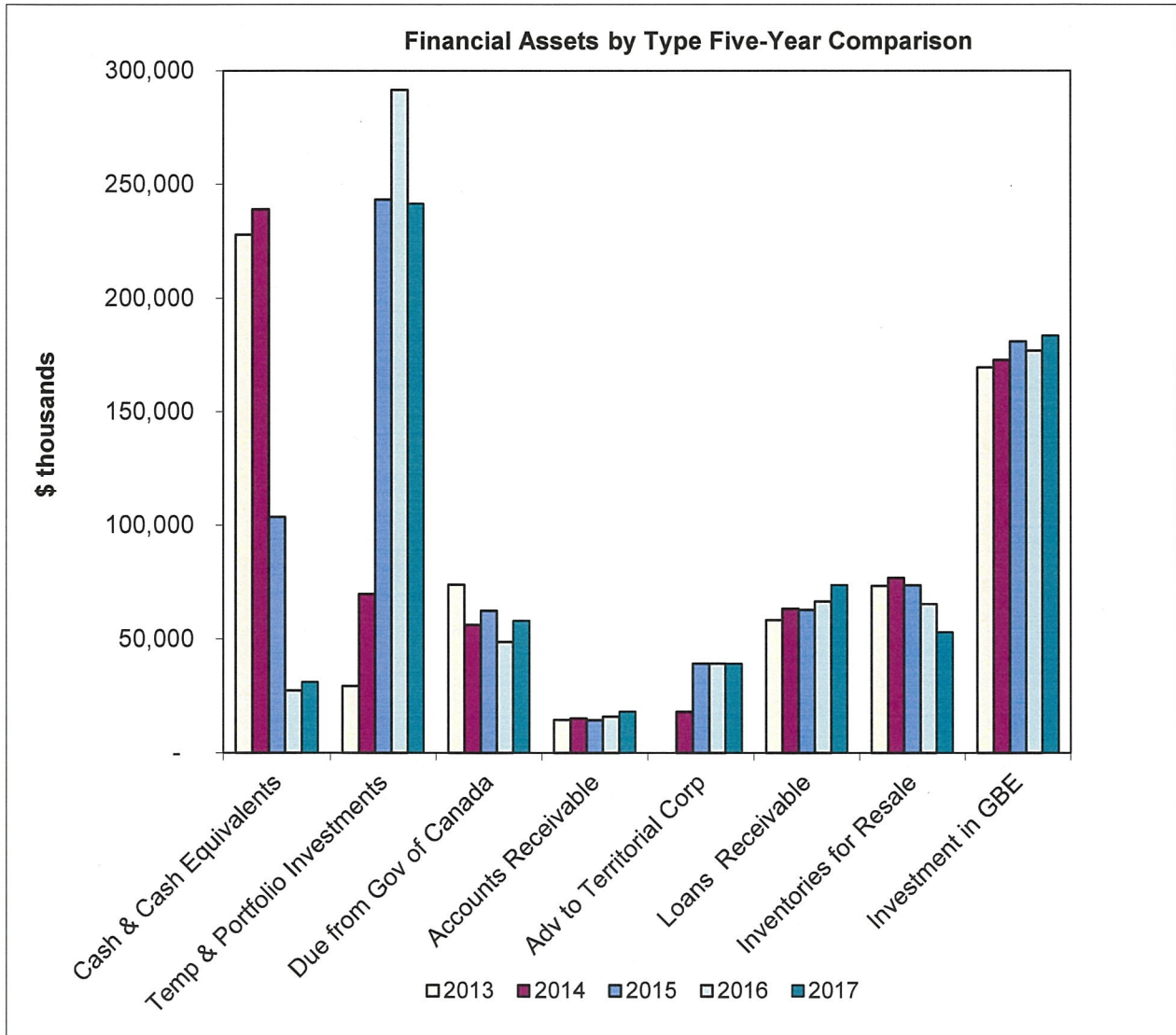
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**Assets**

**Financial Assets**

Financial assets consist of assets available to discharge existing liabilities or to fund future activities. At March 31, 2017, the value of total financial assets was \$698 million, which is a decrease of \$33 million from the previous year. Within financial assets, cash and cash equivalents increased by \$4 million from the previous year while temporary investments decreased by \$13 million. Cash and cash equivalents and temporary investments accounted for \$246 million, or 35% of the 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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### Financial Statement Discussion and Analysis for the year ended March 31, 2017

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, 2017, the Government held \$31 million in cash and cash equivalents, which is an increase of \$4 million from the previous year. This difference was largely invested in temporary investments.

#### Temporary and portfolio investments

Temporary investments are investments with maturity dates of 90 days or more, at the time of purchase, but less than one year. Temporary investments include term deposits, treasury bills, GICs, and funds that include short term debt securities of Canadian governments and corporate issuers. At March 31, 2017, the Government held \$215 million in temporary investments compared to \$228 million the previous year.

Portfolio investments are investments that are expected to be realized or have terms to maturity of greater than one year from the date of acquisition. Portfolio investments include floating rate notes and funds that include bonds and equities. As at March 31, 2017 the government held \$27 million in portfolio investments compared to \$64 million in the previous year. The decrease in portfolio investments is primarily due to all but one class of the floating rate notes, the Master Asset Vehicle II, being redeemed in full during the year.

As of March 31, 2017, \$29 million of the temporary and portfolio investments were designated (\$27 million at March 31, 2016) 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, 2017, the Government had receivables from the Government of Canada in the amount of \$58 million, 98% of which were outstanding claims on cost-sharing agreements and projects delivered on behalf of the federal government.

#### Advances to Territorial corporations

The Government has advanced a total of \$39 million under a loan agreement with the Yukon Development Corporation ("YDC") for a construction financing loan. The monies advanced are an interest-bearing loan that was used to assist in the development of the Whitehorse diesel – natural gas conversion project, which was carried out by the Yukon Energy Corporation, YDC's wholly owned subsidiary. On February 29, 2016 the parties agreed to extend the loan for a fourth term to commence April 1, 2016 and mature March 31, 2018.

#### Loans receivable

The Government has loans receivable of \$74 million, of which \$47 million, or 63%, were Yukon Housing Corporation mortgages receivable, followed by \$14 million, or 18%, in land sale related loans receivable that are also administered by the Yukon Housing Corporation.



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Inventories for resale

Inventories for resale totalled \$53 million as of March 31, 2017. This was a decrease of \$12 million (19%) from the previous year. The inventories largely consist of lots that were developed by the Government for sale to the public. In 2016-17, the Government spent \$8.2 million to develop mainly residential lots. Of the \$8.2 million, \$7.5 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 \$182 million at March 31, 2017 (2016 - \$176 million). The Yukon Energy Corporation, which supplies and sells power in the Yukon, is the wholly-owned subsidiary of YDC.

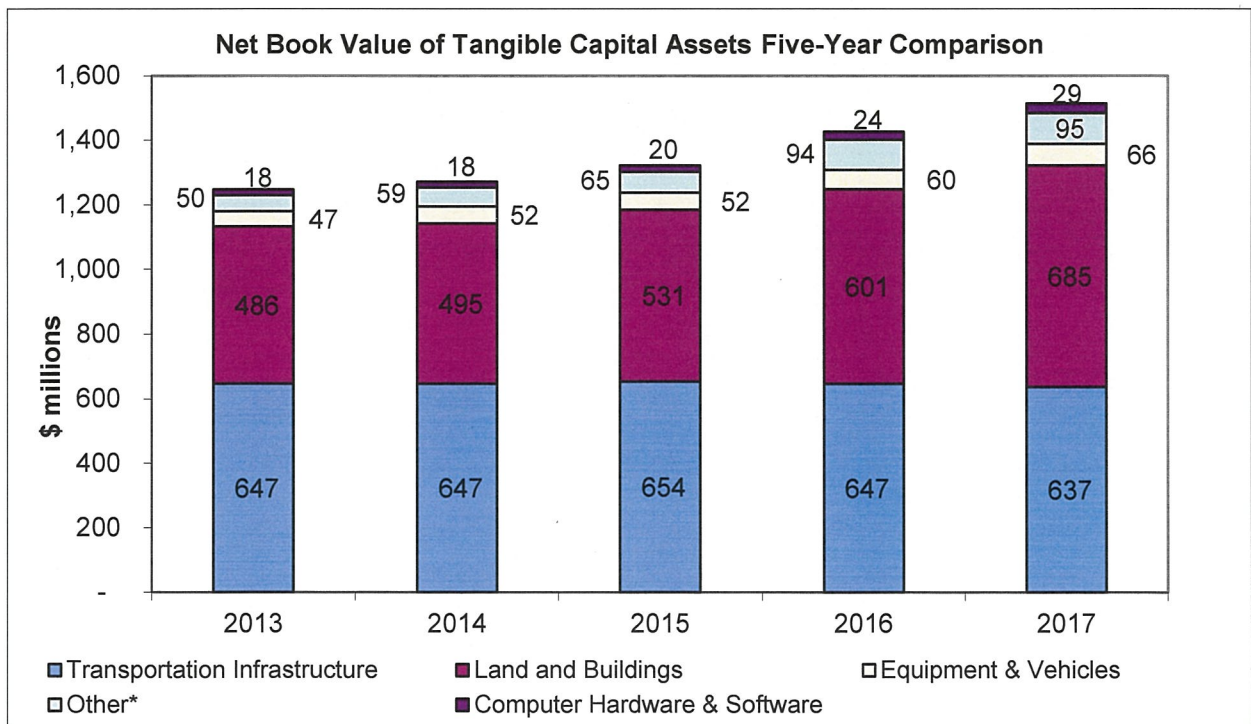
**Non-financial Assets**

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. Tangible capital assets are the largest category of non-financial assets.

Tangible capital assets

At March 31, 2017, the Government owned and used tangible capital assets with a net book value of \$1.513 billion for its program delivery, an increase of \$87 million from the previous year net book value of \$1.426 billion.

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



For additional detail see schedule C

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In 2016-17, the Government made the following investment in tangible capital assets:

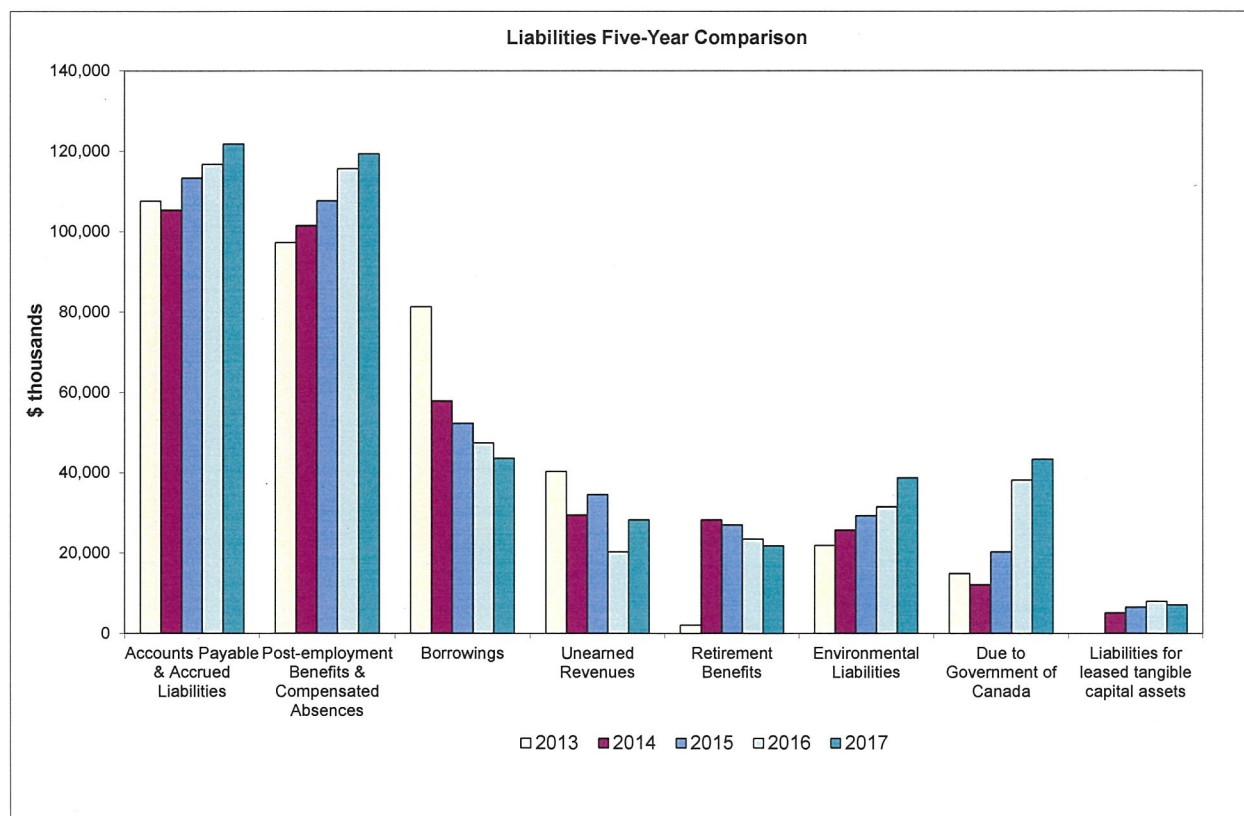
Opening balance at April 1, 2016	\$ 1,426 million
Additions during the year	151 million
Less: Disposals and write-downs	(2) million
Amortization	(62) million
Balance at March 31, 2017	\$ 1,513 million

The Government's \$151 million investment was largely spent on buildings, transportation infrastructure and equipment and vehicles.

In accordance with the recommendations of the Public Sector Accounting Board of the Chartered Professional Accountants of Canada, the value of transferred Crown land is not reported as a tangible capital asset.

**Liabilities**

At March 31, 2017, the liabilities of the Government totaled \$424 million (\$401 million at March 31, 2016), which is equivalent to 61% 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 \$122 million is an increase of 4% from the previous year's total of \$117 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 such as sick leave and vacation leave that are paid to employees during their employment. 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, 2017 were \$119 million (\$116 million at March 31, 2016).

#### Borrowings

The largest portion of the \$44 million reported as borrowings relates to the Yukon Hospital Corporation's demand term installment loans totaling \$40 million (\$43 million at March 31, 2016). 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 2016-17 the Yukon Hospital Corporation paid down these loans by \$3 million.

Mortgages and loans payable by the Yukon Housing Corporation represent a further \$4 million (\$4 million at March 31, 2016) of the Government's borrowings.

#### Unearned revenues

Unearned revenues of \$28 million reported as of March 31, 2017 (\$20 million at March 31, 2016) are mostly comprised of funding received from the Government of Canada that has not yet been expended in accordance with funding agreements.

#### Retirement benefits

Retirement benefits liability totaled \$22 million at March 31, 2017 (\$23 million at March 31, 2016) 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 \$36 million to the Public Service Pension Plan in 2016-17 as the employer's share (\$36 million in 2015-16).

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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 deficit of \$19 million and the Yukon Hospital Corporation had a deficit of \$32 million (solvency deficits). Yukon College entered into a letter of credit in lieu of making solvency payments. Yukon Hospital Corporation also entered into a letter of credit in lieu of making solvency payments as well as making cash payments.

Environmental liabilities

At March 31, 2017, the Government has recorded \$39 million (\$32 million at March 31, 2016) as a liability for the costs related to the remediation of contaminated sites for which the Government is responsible. Of the liabilities, \$12 million (30%) is for highway maintenance camps and airports and \$10 million (26%) is for landfills that the Government is responsible for maintaining.

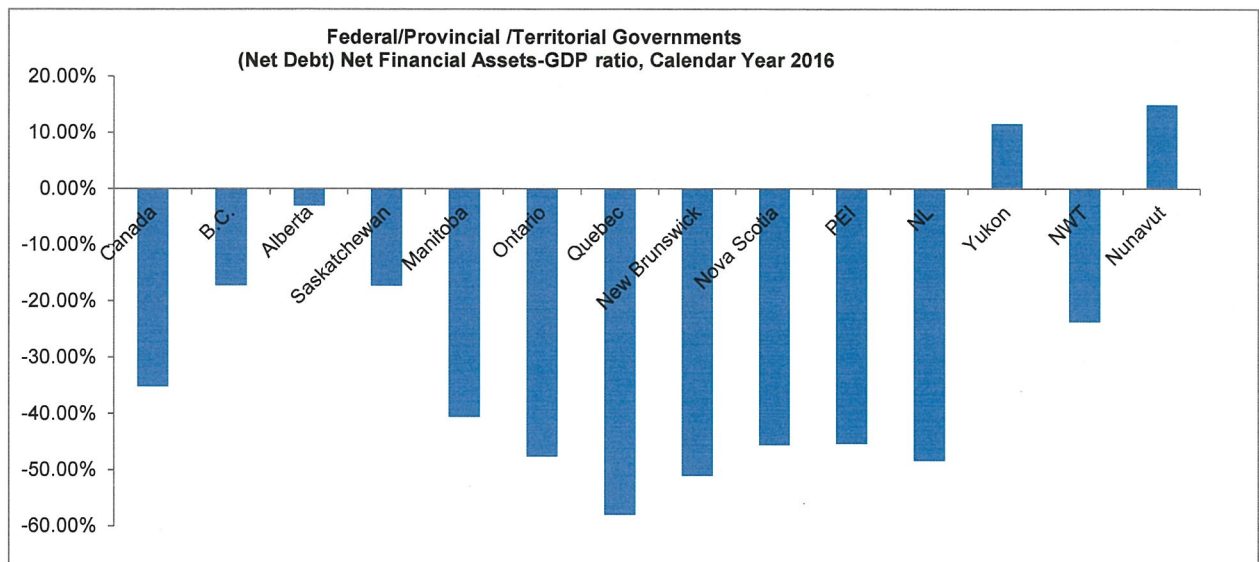
Due to Government of Canada

Accounts payable to the Government of Canada at March 31, 2017 were \$43 million (\$38 million at March 31, 2016). These amounts consist primarily of amounts due under various agreements for Income Taxes and Public Service Pension Plan contributions payable for the month of March 2017.

**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 Nunavut 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 2016 based on preliminary estimates. Net Debt/Net Financial assets – as at March 31, 2017 based on released Public Accounts (March 31, 2016 if the information was not available at the time of publication).

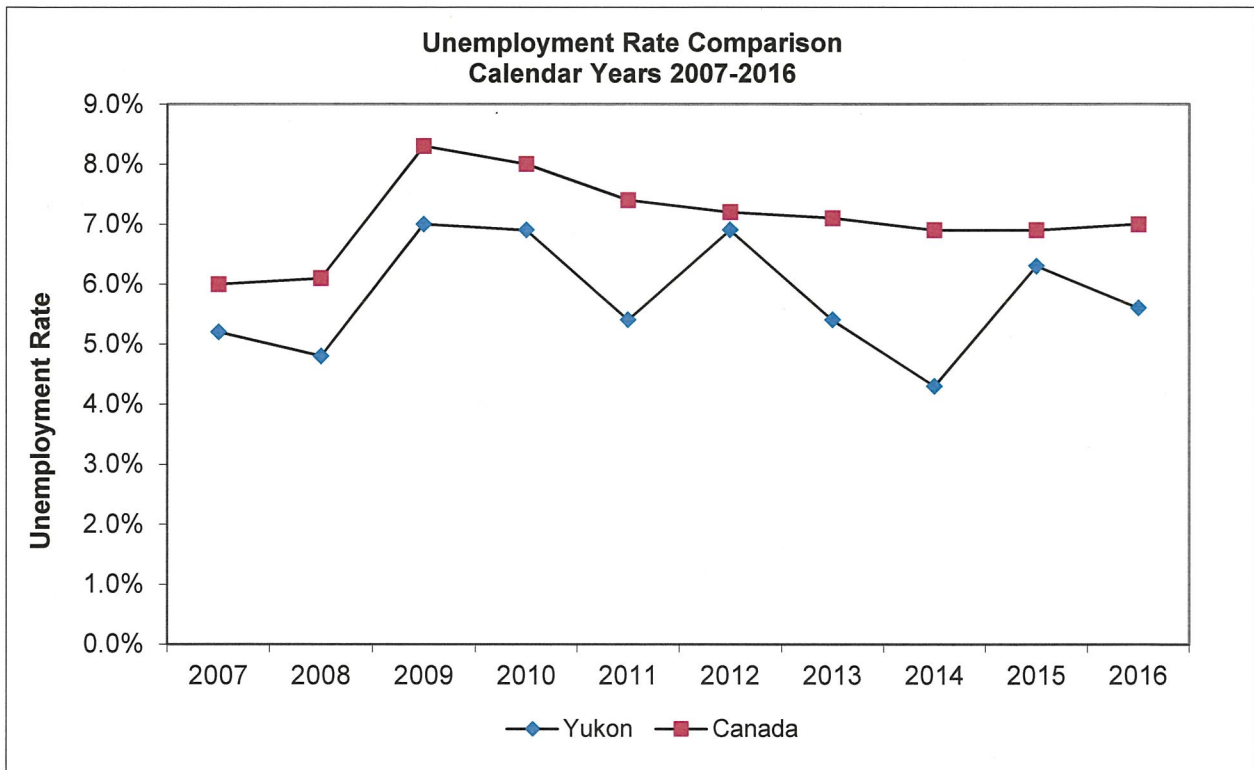
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Unemployment rate (Calendar Year 2016)

Yukon's unemployment rate averaged 5.6% in 2016, which was below the national average of 7.0%.

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