

PART ONE
FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

GOVERNMENT OF YUKON

Financial Statement Discussion and Analysis for the year ended March 31, 2008

Introduction

The Public Accounts is a major accountability report of the Government of Yukon (the Government). The purpose of the financial statement discussion and analysis is to expand upon and explain information contained in the consolidated financial statements, which are presented in Part Two of the Public Accounts. Responsibility for the preparation of this discussion and analysis rests with management of the Government.

2007-08 Highlights

- The 2007-08 financial statements report an annual surplus of \$41 million, which is \$50 million higher than the initially budgeted amount. This is the sixth consecutive year that the Government has reported an annual surplus.
- The greater than the initially budgeted annual surplus was largely due to the following transfers from the Government of Canada, which were announced in late 2006-07, and therefore, were not identified in the Government's 2007-08 Main Estimates:
 - \$25.0 million Building Canada Plan;
 - \$ 5.0 million Ecotrust for Clean Air and Climate Change;
 - \$ 4.5 million Patient Wait Times Guarantee Trust; and,
 - \$ 3.8 million Community Development Trust.

The Building Canada Plan was created to fund strategic investments in projects designed to produce results in three areas of national importance: a growing economy; a clean environment; and strong and prosperous communities. The Government is to receive \$182.9 million in seven annual installments of \$26.1 million.

- At March 31, 2008, the Government reported an accumulated surplus of \$752 million and net financial resources of \$306 million. The Government has maintained the accumulated surplus and net financial resources positions since 1981-82. To have net financial resources means a government has more financial assets than liabilities that are readily available to finance its future operations.
- In February 2008, the Auditor General of Canada issued a report to the Legislative Assembly concluding that the Government's investments in asset-backed commercial paper (ABCP) did not meet the conditions set out in the *Financial Administration Act*. This is also noted in the Auditor's Report on the financial statements for the year ended March 31, 2008. The Government had been investing in ABCP since 1990. In January 2008, an investment policy was implemented that prohibits further investment in ABCP.
- The Government continues to have a strong cash position. At March 31, 2008, the Government held \$165 million in cash, cash equivalents and temporary investments. This is equivalent to 84% of the Government's total liabilities.

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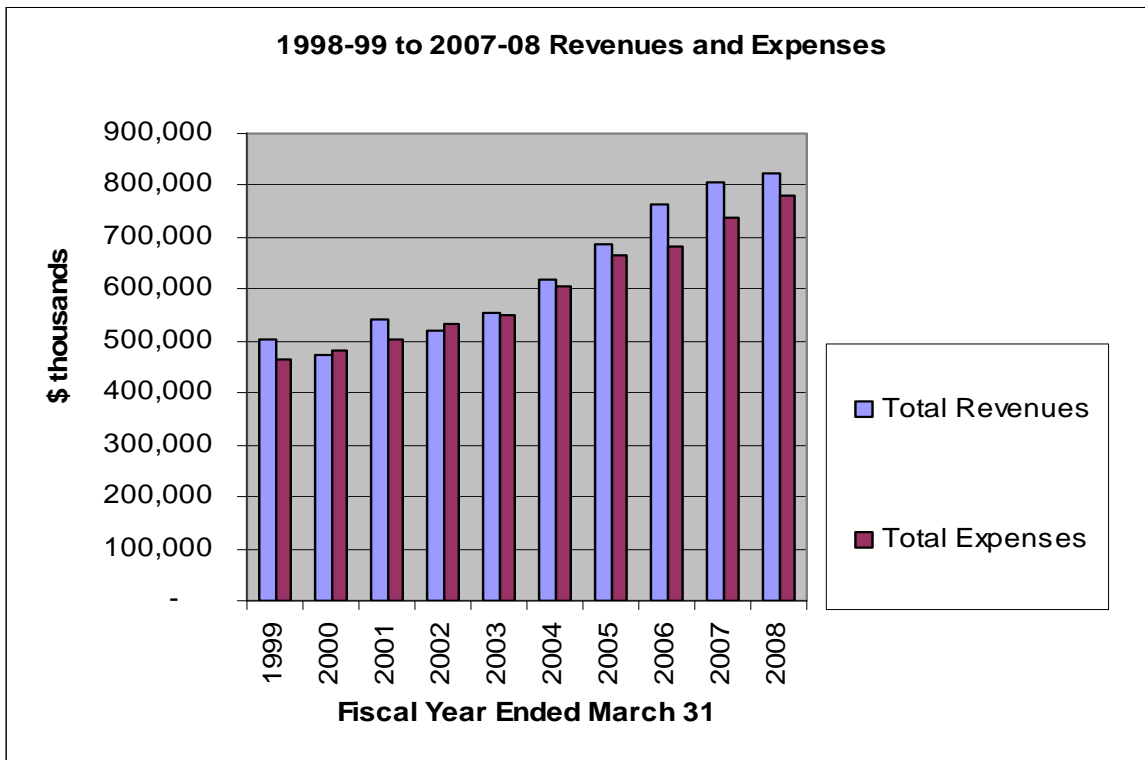
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Surplus for the Year

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

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

The chart below illustrates the trend between revenues and spending over the last 10 years. The amounts are taken directly from the respective year's Public Accounts, without reflecting changes in accounting policies over the years.



Reporting of an annual surplus or deficit is affected by accounting policies used to calculate revenues and expenses. During the ten years reflected above, there were two significant accounting policy changes. Since 2004-05, the Government has used full accrual accounting, whereby expenditures for tangible capital asset acquisitions and developments are capitalized and, therefore, not reported as expenses. Instead, the cost of the asset is allocated over its estimated useful life and a portion is reported as an amortization expense. Since 2005-06, Yukon College and the Yukon Hospital Corporation's financial statements have been included as part of the Government's reporting entity.

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Revenues

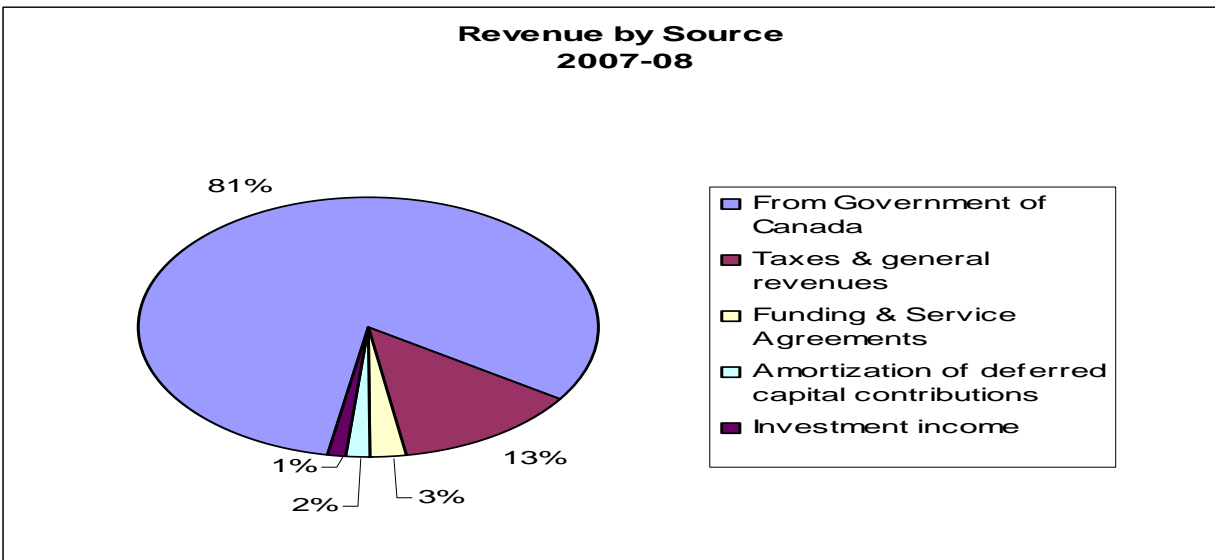
In 2007-08, revenues increased to \$824 million from \$806 million in the previous year.

The Government receives the majority of its revenues from the Government of Canada as a Formula Financing grant. In 2007-08, the Government received \$544 million as a Formula Financing grant. This was an increase of \$27 million or 5% from the previous year. For the years 2007-08 to 2013-14, the Government of Canada has, under Bill C-52, *the Budget Implementation Act, 2007*, restored the Formula Financing grant to a principle-based arrangement. This means that future amounts may vary based on a number of factors such as the population of the territory.

In addition to the Formula Financing grant, the Government receives grants for specific purposes from the Government of Canada. The most significant of those in 2007-08 was the Building Canada Plan, the purpose of which is to support investments in infrastructure that will deliver tangible results for a stronger economy, a cleaner environment and more prosperous communities. The Government will receive annual installment payments of \$26.1 million from the Building Canada Plan for a period of seven years from 2008 to 2014.

Taxes and general revenues include corporate income, personal income, tobacco, liquor, fuel, and property taxes, oil and gas resource revenues and licences and fees such as motor vehicle licences and business/professional fees. Taxes and general revenues have increased by \$6 million to \$104 million from the previous year. This increase is mainly attributable to an increase in income tax revenues (\$9 million).

The income from investment in government business enterprises of \$10 million (\$9 million in the previous year) 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, Yukon Government Fund Limited and the Yukon Development Corporation, which reports its results consolidating the Yukon Energy Corporation.



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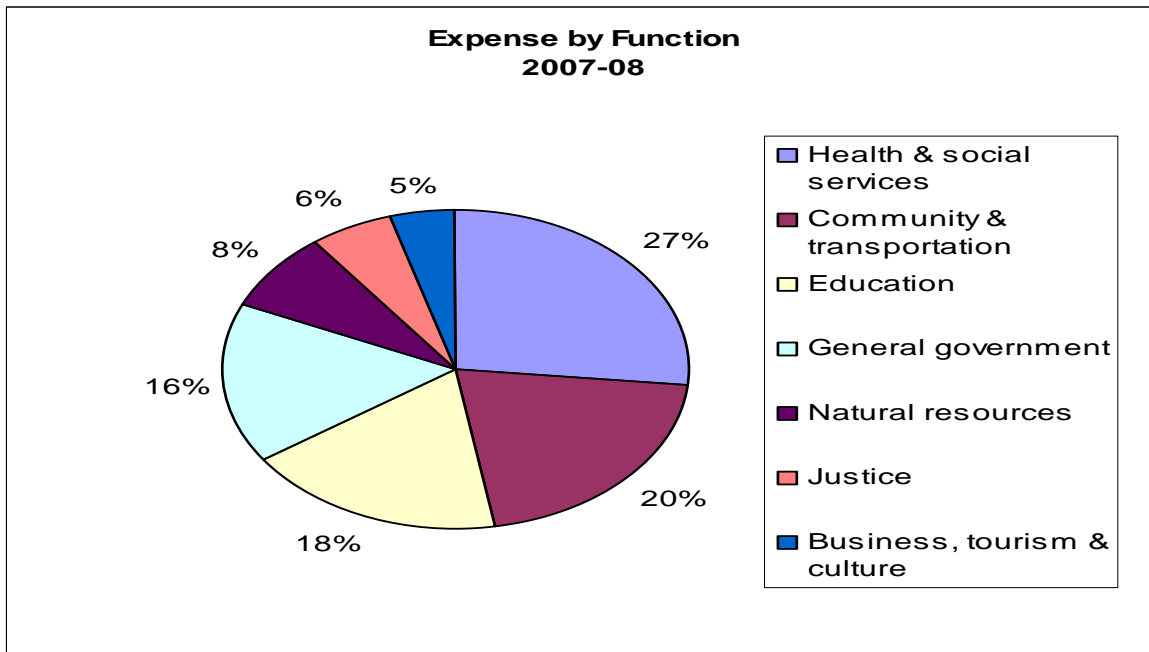
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Expenses

In 2007-08, the ratio of expenses by function remained consistent with the previous year, with health and social services, community and transportation, and education comprising 65% of total expenses (67% in 2006-07).

Over all, expenses increased by 7% or \$55 million to \$794 million from the previous year's expenses of \$739 million. The largest increase was in the general government function, with an increase of \$27 million, followed by \$15 million increase in health and social services. The increase in the general government function was largely due to increased transfer payments corresponding to the funding received from the Government of Canada under the Northern Housing Trust Fund.

The following is a chart of expenses by function:



As for the type of expenses, the highest percentage was spent on wages and benefits (44%), followed by procurement of goods and services (33%), transfer payments (18%) and amortization expenses (5%). This ratio is consistent with the previous year.

Retirement Benefits Plan Amendment

In May 2007, the Government implemented a plan amendment for retirees' extended health care benefits. Until April 2007, the Government contributed approximately 65% of the benefit costs. Effective May 2007, the Government changed the level of its contributions. Under the new contribution structure, the Government contributes a percentage of the cost depending on the years of service provided by the retiree. More details for this plan amendment are provided in Note 14(f) of the consolidated financial statements. This change resulted in a reduction in the liability for this future benefit and an increase in

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the Government's surplus for the year of \$9.6 million. As this event was not considered to occur frequently, the amount is disclosed separately on the Statement of Operations.

Prior year adjustment

During 2007/2008, the Government changed its accounting policy regarding the recognition and estimation method for environmental liabilities. As a result, an additional \$3.2 million has been recognized as a liability. Prior to 2007/2008, it was the Government's policy to record an environmental liability only when Environmental Site Assessments, often referred to Phase II ESA, is completed and a remedial cost is estimated in a plan of restoration. Starting the fiscal year 2007/2008, the Government records an environmental liability as soon as the existence of contamination is confirmed and the Government is obligated to incur the cost of remediation, based on its best estimate utilizing the information available at the time of recording.

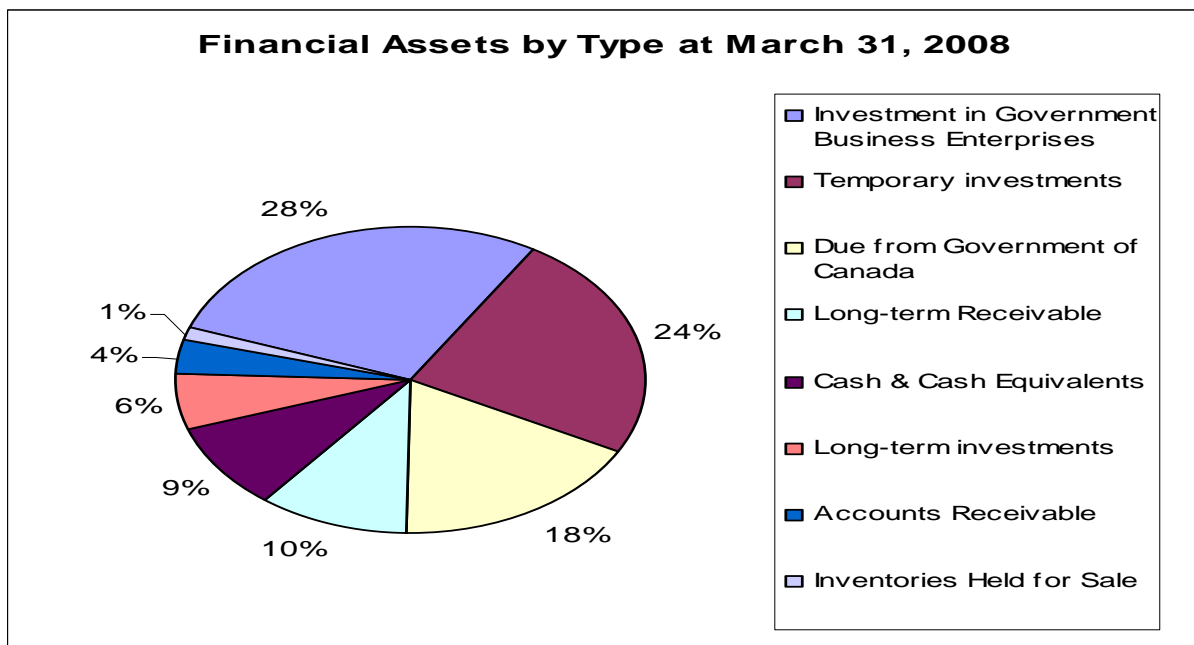
This adjustment has been applied retrospectively.

Assets

Financial Assets

Financial assets consist of assets available to discharge existing liabilities or to finance future activities. At March 31, 2008, total financial assets were \$504 million, an increase of \$34 million from the previous year. This increase is mainly attributable to the increase in grants receivable from Canada.

Financial assets by type are shown below:



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Investment in government business enterprises

Investment in government business enterprises, which is the largest component of the Government's financial assets, represent equities of self-sustainable corporations, the largest of which is the Yukon Development Corporation. The Yukon Energy Corporation, which supplies and sells power in the Yukon, is a wholly-owned subsidiary of the Yukon Development Corporation.

Temporary investments and cash and cash equivalents

Temporary investments are investments with maturity dates longer than 90 days, at the time of purchase, but less than one year. Temporary investments consist of banker's acceptance, bearer deposit notes and Government of Canada treasury bills. Cash and cash equivalents are comprised of cash on hand, bank balances, funds held in trust accounts on behalf of the Government and short-term investments that mature less than 90 days from the date of purchase.

At March 31, 2008, the Government's cash and cash equivalents were \$45 million, compared to \$202 million as of March 31, 2007. The Government had \$120 million in temporary investments at March 31, 2008, compared to \$2 million of the previous year.

Due from Government of Canada

\$88 million that is due from the Government of Canada is an increase of \$40 million from the previous year. This increase is largely due to the entitlement and receivable recorded for grants under the Building Canada Plan (\$25 million) and Community Development Trust (\$3.8 million). Unpaid claims from Indian and Northern Affairs Canada for services that the Government provides increased by \$11 million, from \$14 million to \$25 million.

Long-term receivable

The Government has long-term receivable of \$51 million; 67% of long-term receivable, or \$34 million, are Yukon Housing Corporation mortgages receivable, followed by 18% or \$9 million in land-sale related loans receivable that are also administered by the Yukon Housing Corporation. A slight increase (\$2.5 million or 5%) from the previous year was due to an increase in land-sale related loans.

Long-term investments

At March 31, 2008, the Government held non-bank-sponsored asset-backed commercial paper ("ABCP") with a maturity value of \$36.5 million. These investments were purchased at a cost of \$36.3 million in July and August of 2007 and matured during the months of August and September 2007 but, as a result of liquidity issues in the ABCP market, did not settle on maturity. These investments held by the Government were rated by the Dominion Bond Rating Service as R-1 (high), which is of the highest credit quality.

Since August 2007, a restructuring plan for certain ABCP investments, including those held by the Government, was developed by a committee consisting of major investors. After being subject to several court proceedings, this restructuring plan is expected to be implemented in November 2008. Under the plan, the Government is to receive interest bearing notes with a value of approximately \$36.3 million. All notes are expected to be repaid starting in 2013 and ending in 2016. Approximately 89 per cent of the restructured notes that the Government will receive are expected to have a high credit rating ("AA"). As the Government's investments in ABCP that are subject to the restructuring plan are no longer current in nature, these investments are classified as long-term investments.

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While the Government expects to receive the full value of its \$36.3 million original investments at maturity plus interest, as required by Canadian generally accepted accounting principles, the Government has estimated the value of its ABCP holdings at March 31, 2008 using a probability-weighted discounted cash flow valuation technique. Based on the valuation, the Government has recorded an accounting valuation adjustment in the amount of \$6.2 million as at March 31, 2008. This accounting valuation adjustment will be eliminated over time as the investments move closer to their maturity dates.

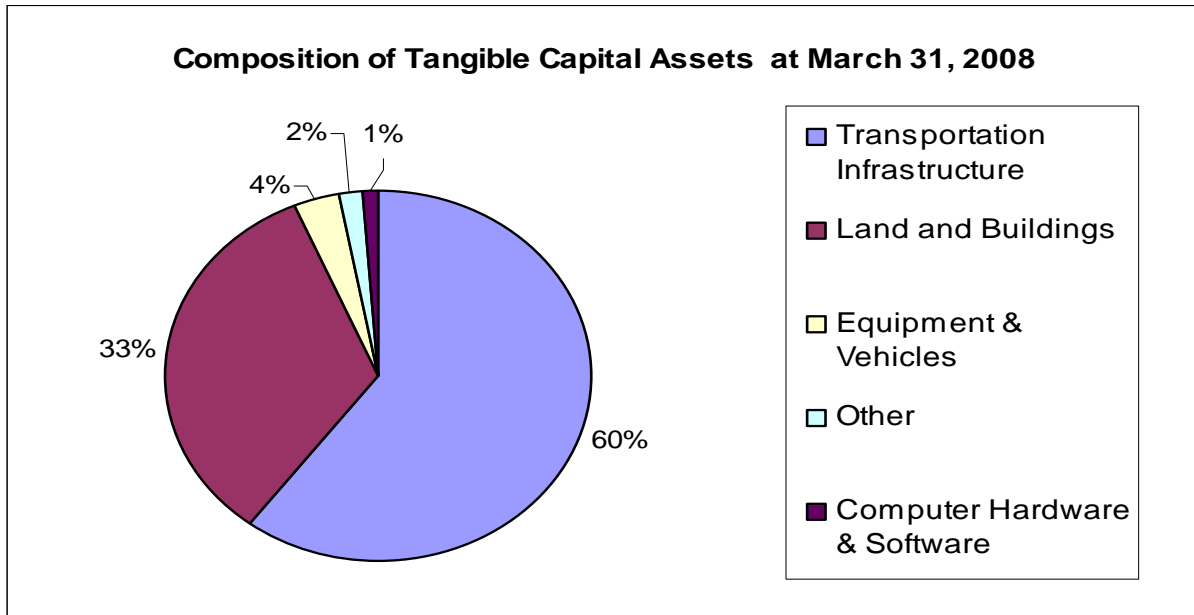
Non-financial assets

Non-financial assets are assets that do not normally provide resources to discharge existing liabilities, but instead are normally used to deliver government services or may be consumed in the normal course of operations. Non-financial assets include tangible capital assets, inventories, and prepaid expenses.

Tangible capital assets

At March 31, 2008, the Government owned and used tangible capital assets valued at \$946 million for its program delivery, up \$21 million from the previous year of \$925 million. Of those assets, \$507 million or 54%, are either funded by other governments or transferred from the Government of Canada as part of the transfer of various program responsibilities.

Tangible capital assets are composed of the following types:



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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.

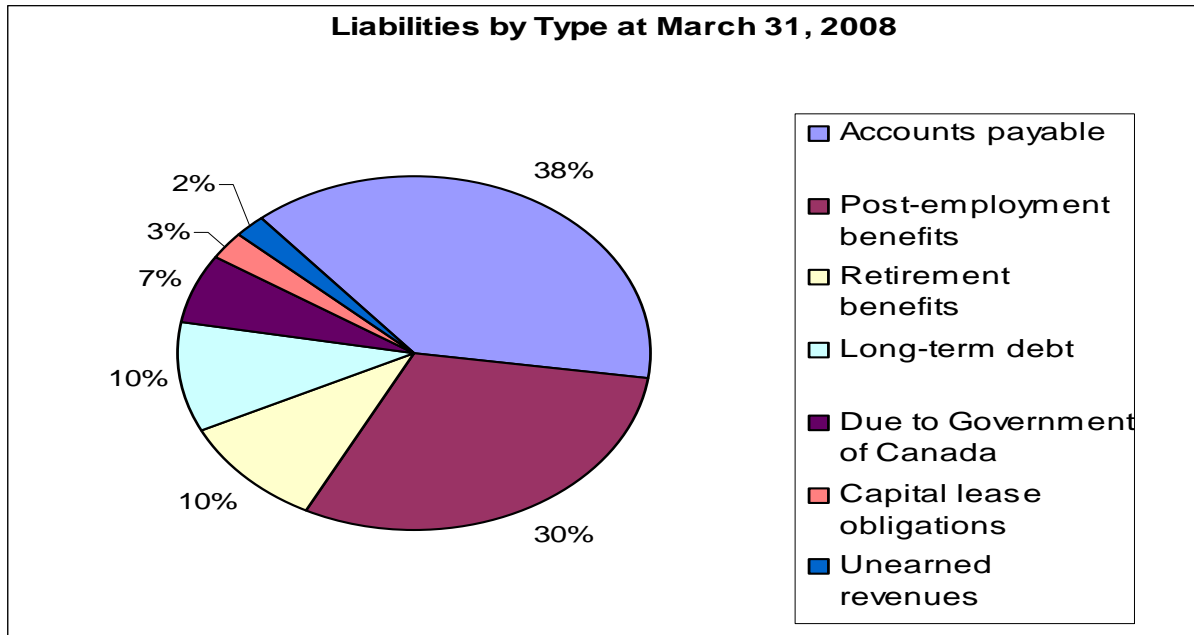
In 2007-08, the Government made the following investment in tangible capital assets:

	(millions)
Opening balance at April 1, 2007	\$925
Investment during the year	60
Less: Disposal and write-downs	(1)
Amortization	(38)
Balance at March 31, 2008	\$946

Of the \$60 million invested in tangible capital assets during the year, \$35 million was funded by other governments. The largest capital funding the Government received in the fiscal year 2007-08 was from the U.S. Government under the Shakwak Agreement for reconstruction of the Alaska Highway. In 2007-08, the Government received \$29 million (2007 - \$42 million) pursuant to the Shakwak Agreement.

Liabilities

The liabilities of the Government at March 31, 2008 totaled \$197 million (\$204 million at March 31, 2007), which is equivalent to 39% of the financial assets of the Government. The total composition of liabilities by category remained reasonably consistent with the previous year.



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Accounts payable

Accounts payable includes accrued liabilities that were estimated prior to the receipt of actual invoices. The total accounts payable and accrued liabilities of \$75 million at March 31, 2008 is within 1% of the previous year's total of \$76 million.

Post-employment benefits

The Government's second largest liability, after accounts payable, is post-employment benefits. Post-employment benefits are to be provided to employees after employment but before retirement. These benefits consist of severance pay, sick leave and vacation leave benefits that are paid in cash when employment is terminated. Following the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, the Government uses an actuary to estimate its post-employment benefit liability. As no money is set aside to fund this liability, the total future benefit obligation equals the liability. The post-employment benefit liability at March 31, 2008 was \$60 million (\$54 million at March 31, 2007).

Retirement benefits

The retirement benefit liability of \$21 million at March 31, 2008 represents the Government's extended health benefits that are provided to retired employees as well as various pension plan liabilities. The retirement benefit liabilities include those pension plan liabilities for the Members of Legislative Assembly, territorial court judges and employees of Yukon College and the Yukon Hospital Corporation. As the Yukon government employees participate in the Public Service Pension Plan administered by the Government of Canada, there is no pension liability for Government of Yukon employees. The Government contributed \$27 million to the Public Service Pension Plan in 2007-08 (2007 - \$24 million) as the employer's share.

In May 2007, the Government changed the level of its contributions towards retirees' extended health benefits. Until April 2007, the Government contributed approximately 65% of the benefit costs. Under the new contribution structure, the Government contributes a percentage of the cost depending on the years of service provided by the retiree. This change resulted in a reduction in the retirement benefit liability as at April 1, 2007 of \$9.6 million.

In the most recent actuarial valuations, both the Yukon College Employee Pension Plan and the Yukon Hospital Corporation Employee Pension Plan reported a deficit on a solvency basis. In order to address these solvency deficits, the Government has provided a funding commitment to the College to cover increased pension costs up to 2015 to a maximum of \$4.1 million and to the Yukon Hospital Corporation totaling \$4.2 million over the next three fiscal years.

Long-term debt

The largest portion of the \$20 million reported as long-term debt is mortgages payable by the Yukon Housing Corporation totaling \$16 million.

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Net Financial Resources and Accumulated Surplus

At March 31, 2008, the Government's financial assets exceed its liabilities, resulting in net financial resources of \$307 million (\$266 million at March 31, 2007). This important indicator shows that the Government has financial resources on hand at the time of reporting to finance future operations and that the Government is not relying on future revenues to provide current services.

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, 2008 was \$752 million (\$711 million at March 31, 2007).

Cash Flows

Cash provided by operating transactions decreased by approximately \$60 million from the previous year. While the total cash receipts were almost same as the previous year, cash paid for operating transactions increased in all areas of operations. The Government paid \$17 million more in salary and wages, \$22 million more in other expenses such as materials and contract services, and \$20 million more in transfer payments. Interest payments on long-term debt were the only expense area where the cash payout decreased.

While the Government used more cash in operating activities, less cash was used for acquisition and development of tangible capital assets.