

## GOVERNMENT OF YUKON

### **Financial Statement Discussion and Analysis for the year ended March 31, 2016**

#### **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.

#### **2015-16 Highlights**

- The Government reported an annual surplus of \$51 million compared to a \$95 million surplus in 2014-15. Total revenues decreased by \$5 million (0.4%), while expenses increased by \$62 million (5%), from the previous year. Fifty-nine percent of the \$62 million increase in expenses was in the community and transportation function.
- The annual surplus of \$51 million was \$13 million (34%) higher than the initially planned surplus of \$38 million. Lower than expected revenues of \$63 million (5%), lower than expected expenses of \$50 million (4%) and the retention of the Dawson wastewater treatment plant by the Government contributed to the change in surplus. Revenues were lower than budget largely due to lower than expected taxes and general revenues while expenses were lower than budget largely due to lower than expected expenses in health and social services. The Dawson wastewater treatment plant has a value of \$25 million and is included in recovery of prior year’s expenditures.
- The Government of Yukon continues to be in a positive net financial asset position, with a balance at March 31, 2016 of \$330 million. To have net financial assets means a government has more financial assets than liabilities readily available to finance its future operations.
- In 2015-16, the Government recorded tangible capital asset additions for the development of assets such as buildings and transportation infrastructure of \$167 million, compared to \$107 million in the previous year. In 2015-16, the Government spent a total of \$29.4 million on the McDonald Lodge in Dawson City, Sarah Steele building rebuild and the Whistle Bend Continuing Care Facility.
- In 2015-16, the Government contributed \$22.6 million towards the Whitehorse General Hospital’s expansion project. The MRI suite expansion and the new ambulance station phases are now complete. The anticipated completion of the hospital expansion is late fall 2017 at an estimated cost of \$72 million.
- On September 28, 2016, 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 exceptional liquidity, very low debt burden, very low contingent liabilities, strong financial management, and average economic strength and budgetary performance.

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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:

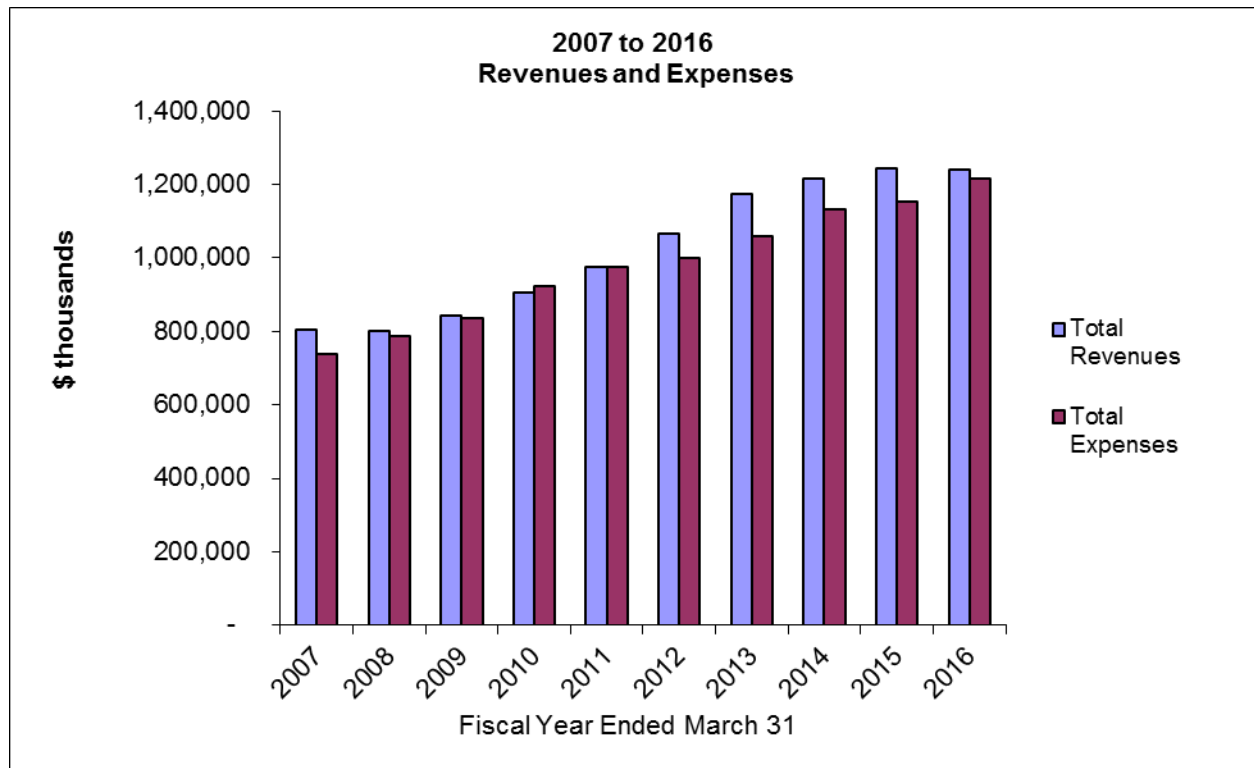
- total revenues, of which the Formula Financing grant from the Government of Canada makes up the largest share; and
- direct government spending and operating transfers to individuals and other public organizations, such as municipalities.

The surplus of \$51 million for the year was a decrease of \$44 million (46%) from the previous year's surplus of \$95 million and \$13 million (34%) more than the initially planned surplus of \$38 million. Revenues decreased by \$5 million from the previous year's actual and were \$63 million less than initially planned. Actual expenses (net of prior years' expense recoveries) of \$1.19 billion for the year were less than the initially budgeted amount of \$1.27 billion.

Major revenue variances between current and prior year include a \$23 million (3%) increase in Formula Financing grant from the Government of Canada, a \$12 million (8%) decrease in taxes and general revenues, which is largely due to lower corporate income tax collected during the year, and a \$8 million (47%) decrease in income from investment in government business enterprises.

Expenses increased by \$62 million (5%) with expenditures for community and transportation contributing to a majority of the increase. 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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**Net Financial Assets and Accumulated Surplus**

At March 31, 2016, the Government's financial assets exceeded its liabilities, resulting in net financial assets of \$330 million (\$389 million at March 31, 2015). 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 \$59 million in 2015-16. This decrease was largely due to the acquisition of tangible capital assets. In 2015-16, the net effect of tangible capital assets related activities on net financial assets was a decrease of \$104 million (decrease of \$50 million in 2014-15).

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, 2016 was \$1.8 billion (\$1.7 billion at March 31, 2015).

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### Financial Statement Discussion and Analysis for the year ended March 31, 2016

#### Revenues

In 2015-16, the Government's total revenues decreased from the previous year by \$5 million (0.4%) to \$1.24 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 2015-16, the Government received \$874 million as the Formula Financing grant. This was an increase of \$23 million (3%) from the previous year. The Canada Health transfer was \$38 million and the Canada Social transfer was \$14 million. These transfers increased from the previous year by \$6 million (19%) and \$1 million (8%) respectively.

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 \$14 million (10%) to \$123 million. This decrease was due to the Government receiving a one-time \$14 million compensation payment in 2014-15 for transitioning to a new cooperative capital markets regulatory system.

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 decreased from the previous year by \$12 million (8%) to \$143 million. This was largely due to a decrease in corporate and personal income taxes of \$16 million.

Funding and service agreements with other parties remained consistent with previous year.

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 \$8 million, or 47%, to \$9 million.

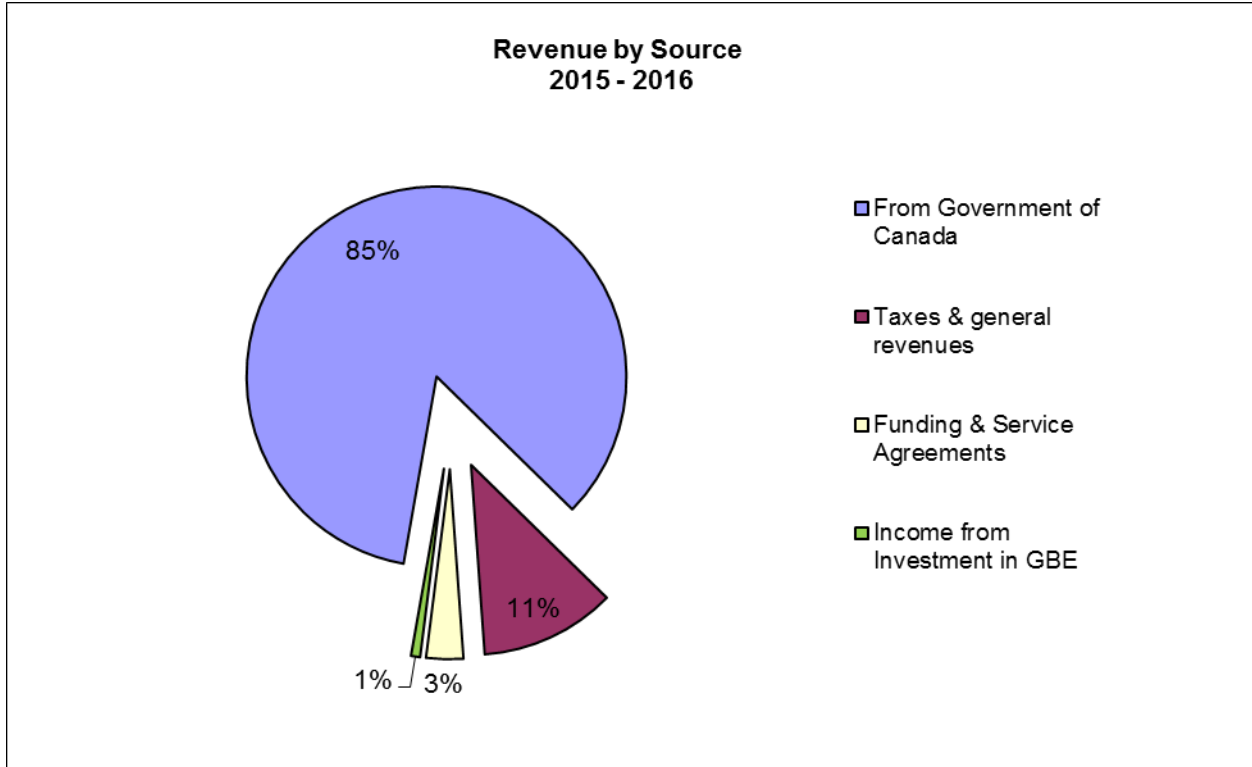
Revenues were less than the initially budgeted amounts by \$63 million. This was largely due to lower than forecasted taxes and general revenues.

In 2015-16, 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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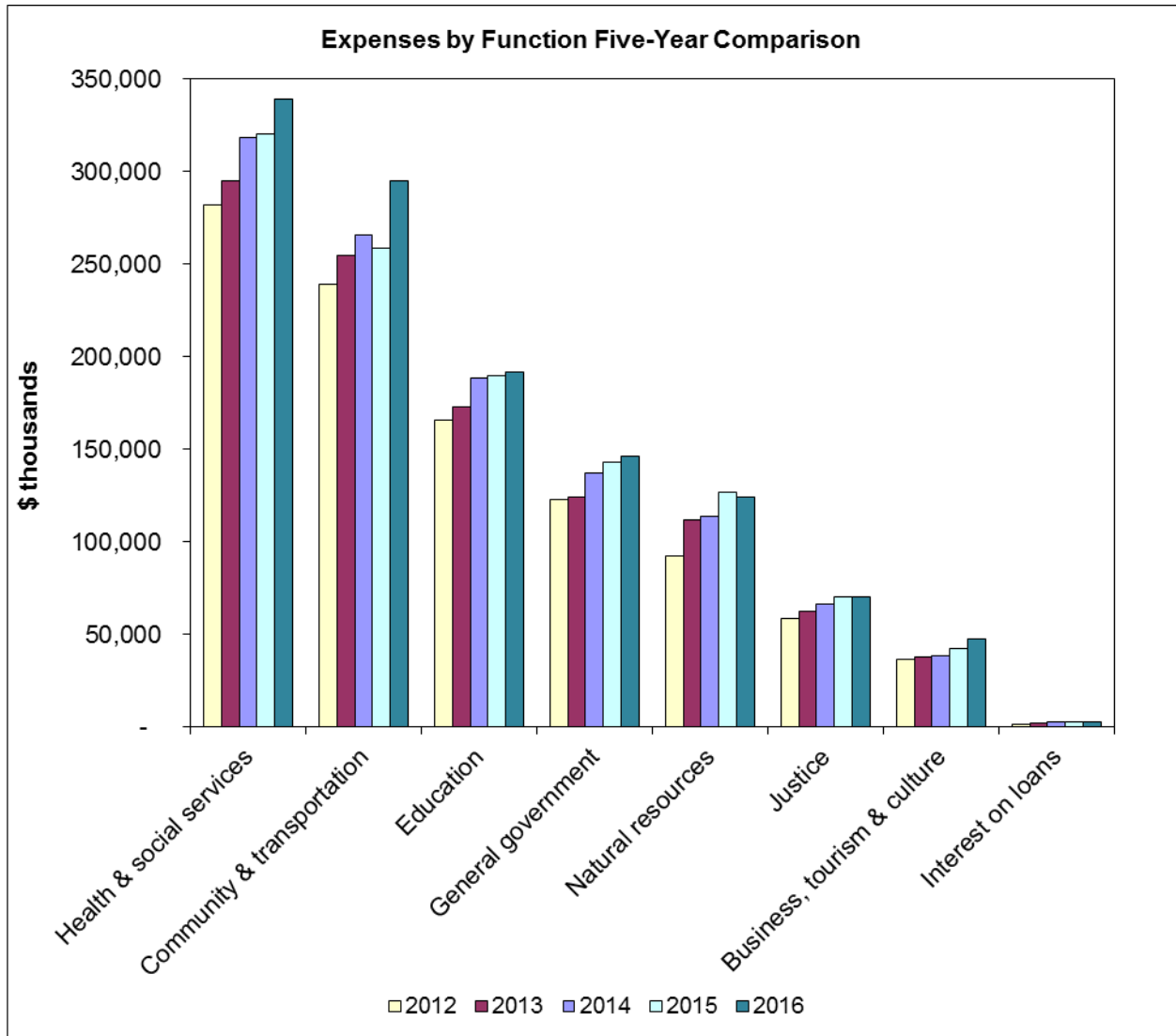
**Expenses**

Overall, expenses increased from the previous year by \$62 million (5%) to \$1.22 billion. The largest increase was in the community and transportation function, with an increase of \$37 million, followed by a \$19 million increase in health and social services while the natural resources function decreased by \$3 million.

As for the type of expenses, the highest percentage was wages and benefits (44%), followed by procurement of goods and services (34%), transfer payments (17%) and amortization expenses (5%). These percentages are consistent with those in previous years.

In 2015-16, 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 (67% in 2014-15).

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).

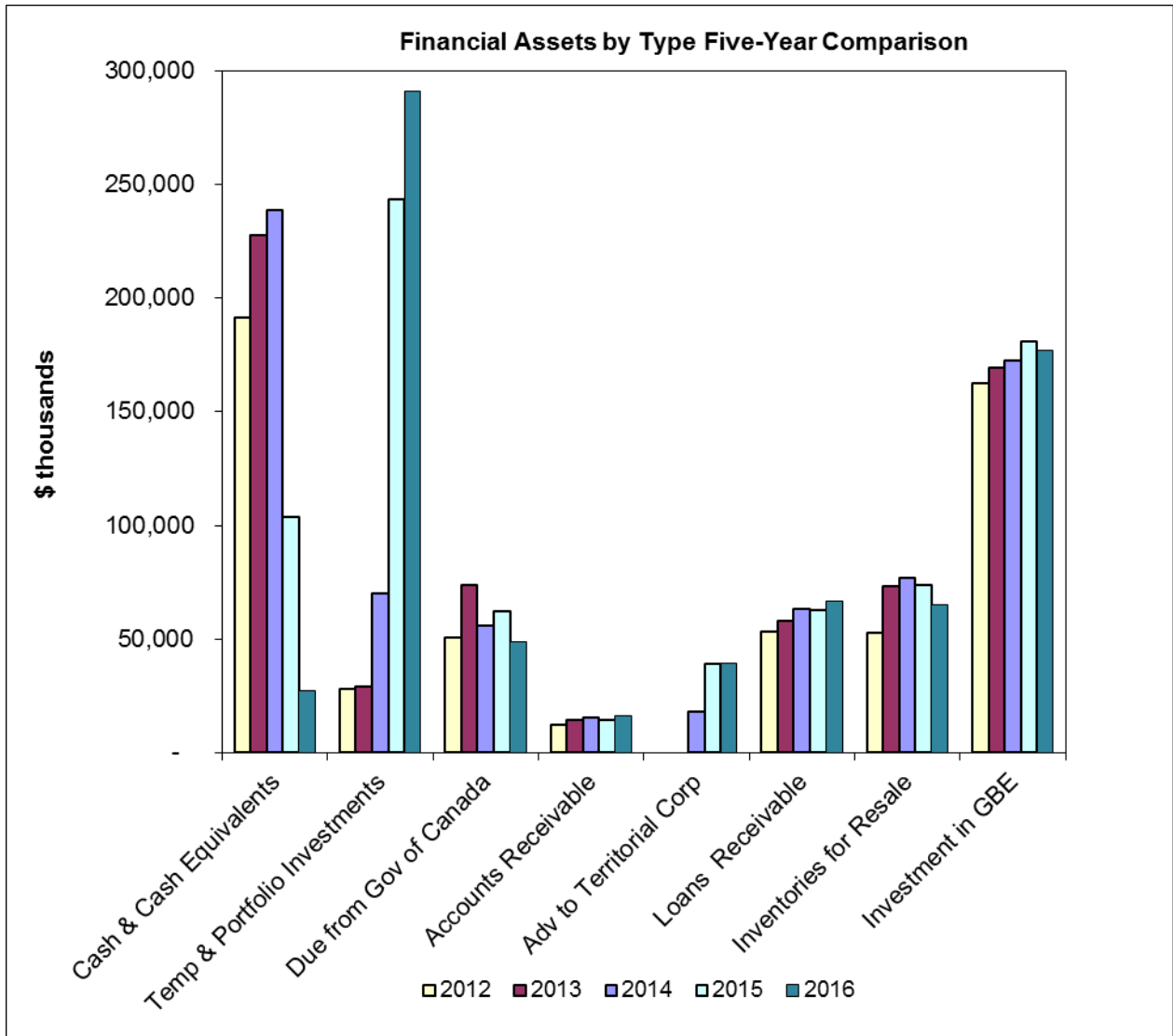
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**Assets**

**Financial Assets**

Financial assets consist of assets available to discharge existing liabilities or to fund future activities. At March 31, 2016, the value of total financial assets was \$731 million, which is a decrease of \$49 million from the previous year. Within financial assets, cash and cash equivalents decreased by \$76 million from the previous year while temporary investments increased by \$44 million. Cash and cash equivalents and temporary investments accounted for \$255 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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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, 2016, the Government held \$27 million in cash and cash equivalents, which is a decrease of \$76 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 treasury bills, GICs, term deposits, a provincial debenture and funds that include short term debt securities of Canadian governments and corporate issuers. At March 31, 2016, the Government held \$228 million in temporary investments compared to \$184 million the previous year.

At March 31, 2016, the Government held portfolio investments in Floating Rate Notes ("FRNs"), with a carrying value of \$35 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 of various classes with a face value of \$36 million issued by a trust referred to as the Master Asset Vehicle II. All FRNs are scheduled to be repaid by early 2017. Fair value of FRNs held by the Government is estimated at \$34 million as of March 31, 2016.

As of March 31, 2016, \$27 million of the temporary and portfolio investments were designated (\$26 million at March 31, 2015) 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, 2016, the Government had receivables from the Government of Canada in the amount of \$49 million, 96% 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 \$66 million, of which \$44 million, or 67%, were Yukon Housing Corporation mortgages receivable, followed by \$10 million, or 15%, 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 \$65 million as of March 31, 2016. This was a decrease of \$9 million (12%) from the previous year. The inventories largely consist of lots that were developed by the Government for sale to the public. In 2015-16, the Government spent \$3.9 million to develop mainly residential lots. Of the \$3.9 million, \$3.3 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 \$176 million at March 31, 2016 (2015 - \$180 million). The Yukon Energy Corporation, which supplies and sells power in the Yukon, is the wholly-owned subsidiary of YDC.

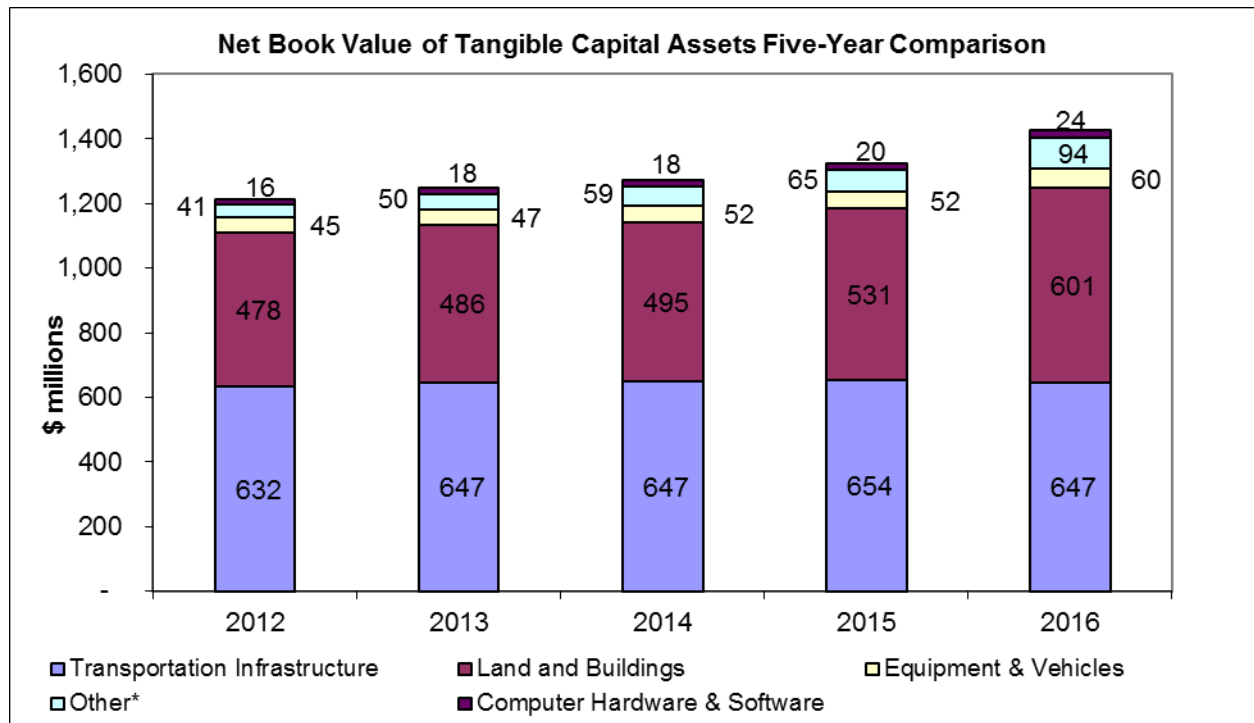
**Non-financial Assets**

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, 2016, the Government owned and used tangible capital assets with a net book value of \$1.43 billion for its program delivery, an increase of \$104 million from the previous year net book value of \$1.32 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 2015-16, the Government made the following investment in tangible capital assets:

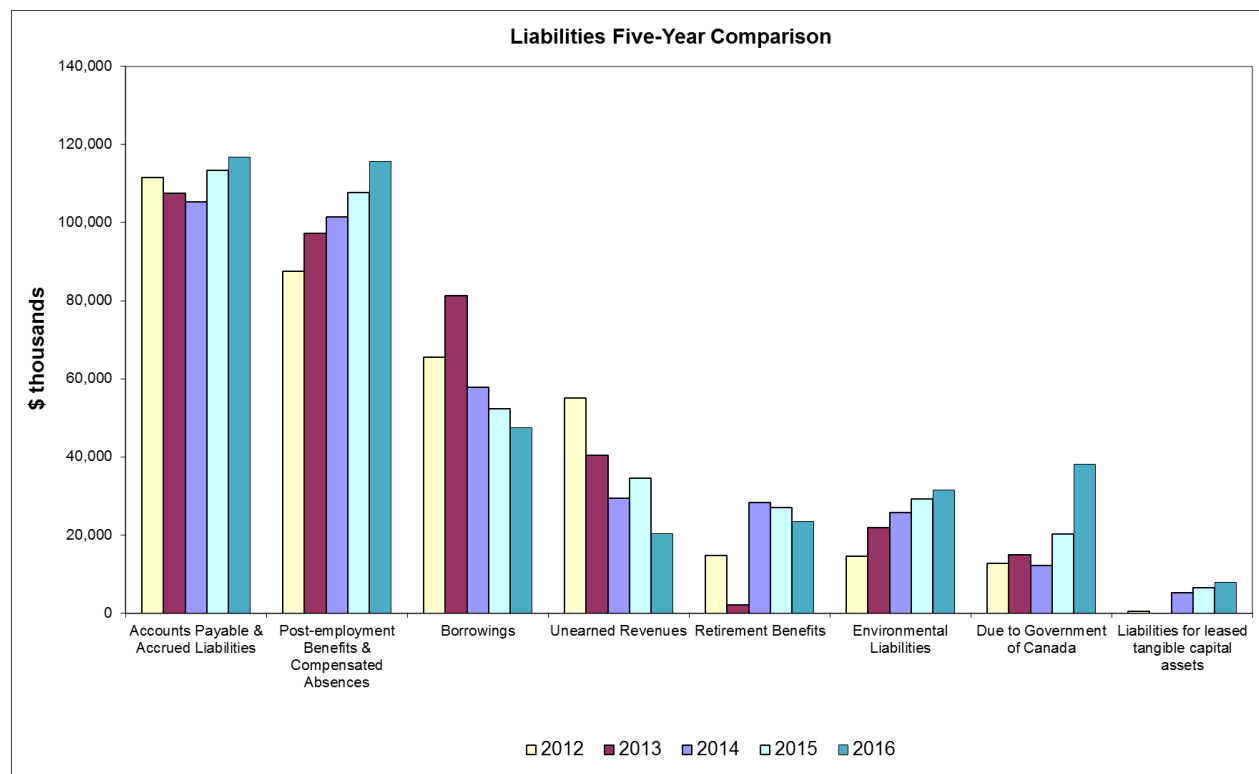
Opening balance at April 1, 2015	\$ 1,322 million
Additions during the year	167 million
Less: Disposals and write-downs	(3) million
Amortization	(60) million
<b>Balance at March 31, 2016</b>	<b>\$ 1,426 million</b>

The Government's \$167 million investment was largely spent on buildings, transportation and water and sewer infrastructure.

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, 2016, the liabilities of the Government totaled \$401 million (\$391 million at March 31, 2015), which is equivalent to 55% 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 \$117 million is an increase of 4% from the previous year's total of \$113 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, 2016 were \$116 million (\$108 million at March 31, 2015).

#### Borrowings

The largest portion of the \$47 million reported as borrowings relates to the Yukon Hospital Corporation's demand term installment loans totaling \$43 million (\$46 million at March 31, 2015). 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 2015-16 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 (\$6 million at March 31, 2015) of the Government's borrowings.

#### Unearned revenues

Unearned revenues of \$20 million reported as of March 31, 2016 (\$35 million at March 31, 2015) 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, \$4 million (\$25 million at March 31, 2015), or 20%, was unspent monies received under the Building Canada Fund.

#### Retirement benefits

Retirement benefits liability totaled \$23 million at March 31, 2016 (\$27 million at March 31, 2015) 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 2015-16 as the employer's share (\$37 million in 2014-15).

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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 \$14 million and the Yukon Hospital Corporation had a deficiency 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, 2016, the Government has recorded \$32 million (\$29 million at March 31, 2015) as a liability for the costs related to the remediation of contaminated sites for which the Government is responsible. Of the liabilities, \$11 million (35%), is for highway maintenance camps and airports and \$8 million (25%) is for landfills that the Government is responsible for maintaining.

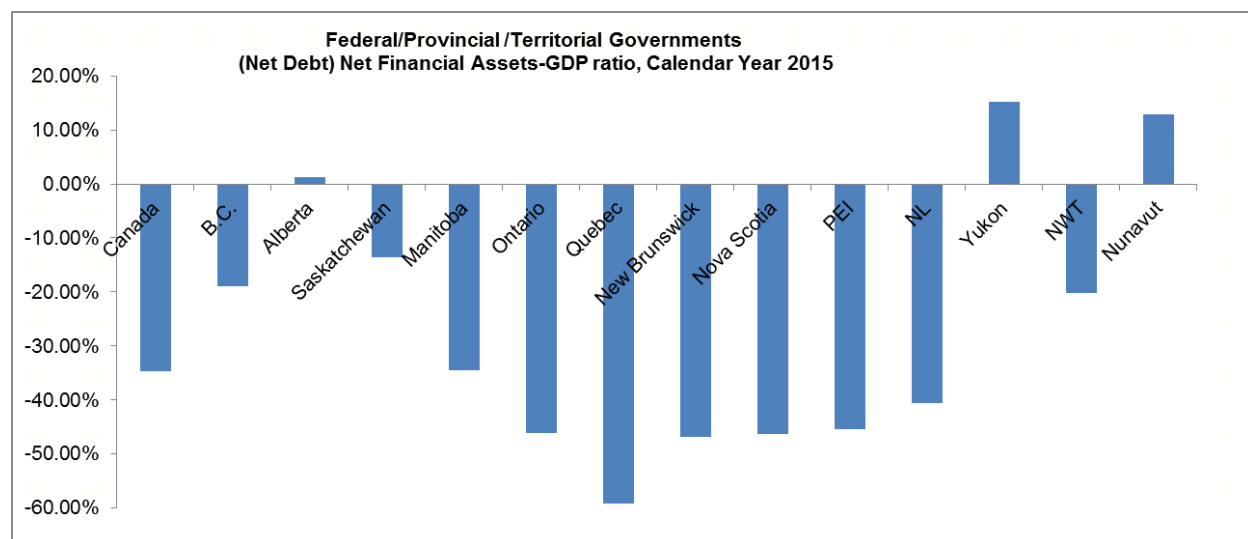
#### Due to Government of Canada

Accounts payable to the Government of Canada at March 31, 2016 were \$38 million (\$20 million at March 31, 2015). 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 2016.

#### 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.



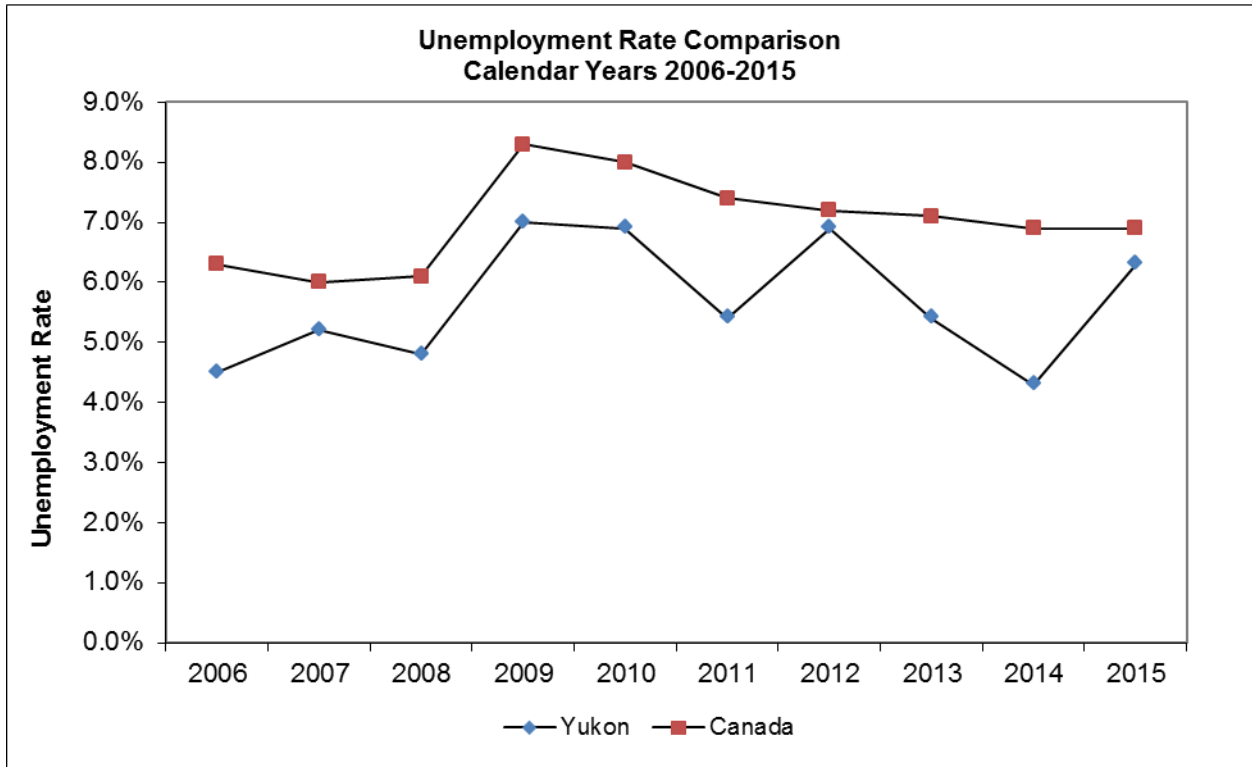
Source: GDP - Statistic Canada 2015 based on preliminary estimates. Net Debt/Net Financial assets – as at March 31, 2016 based on released Public Accounts (March 31, 2015 if the information was not available at the time of publication).

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Unemployment rate (Calendar Year 2015)

Yukon's unemployment rate averaged 6.3% in 2015, which was below the national average of 6.9%.

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