

**PART ONE**  
**FINANCIAL STATEMENT DISCUSSION AND ANALYSIS**

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## GOVERNMENT OF YUKON

### **Financial Statement Discussion and Analysis for the year ended March 31, 2007**

#### **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.

#### **2006-07 Highlights**

- The 2006-07 financial statements report an annual surplus of \$67 million, which is \$45 million higher than the initially budgeted amount. This is the fifth consecutive year that the Government has reported an annual surplus. The Government's cash position as of March 31, 2007 increased to \$202 million from \$147 million the previous year.
- The greater than expected annual surplus and additional cash were largely due to the \$50 million Northern Housing Trust transfer from the Government of Canada. The Northern Housing Trust was created by the Government of Canada to increase the supply of affordable housing in the territories. \$32.5 million of the Northern Housing Trust is allocated to Yukon First Nation governments and \$17.5 million to Government housing programs.
- At March 31, 2007, the Government reported an accumulated surplus of \$714 million and net financial resources of \$269 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 that are readily available to finance its future operations than liabilities.
- At the end of the fiscal year 2006-07, Yukon is one of only two jurisdictions in Canada that reports net financial resources rather than net debt.
- The financial statements of the Government fully comply with Canadian generally accepted accounting principles for the public sector. The 2006-07 financial statements received an unqualified audit opinion from the Auditor General of Canada. This is the fifth consecutive year the Auditor General of Canada has provided an unqualified opinion.

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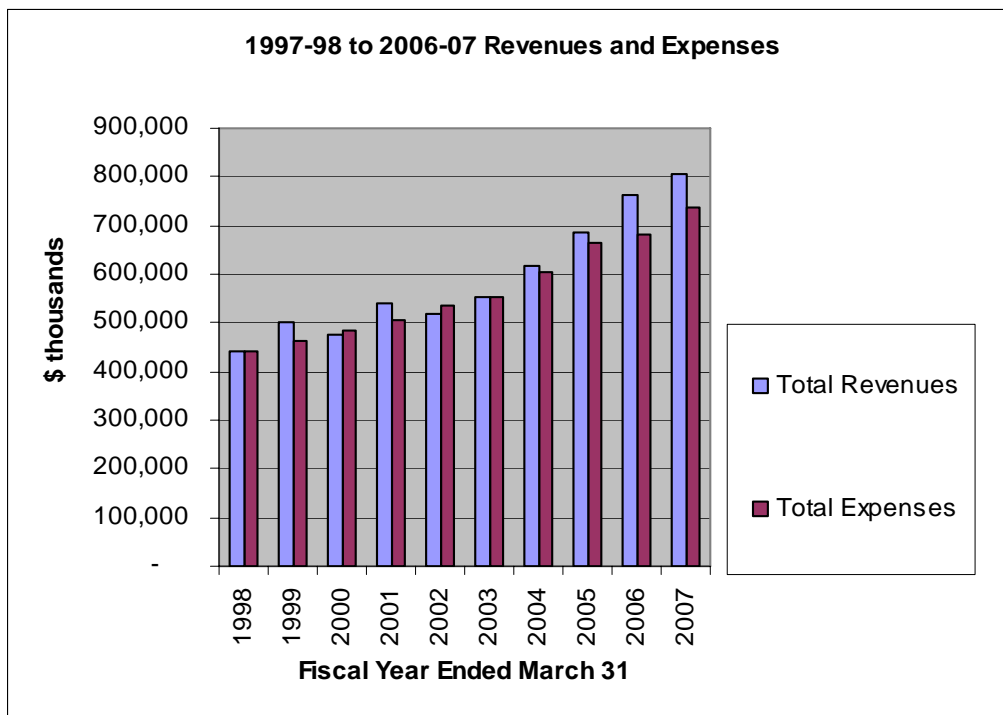
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**Surplus (Deficit) for the Year**

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 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**

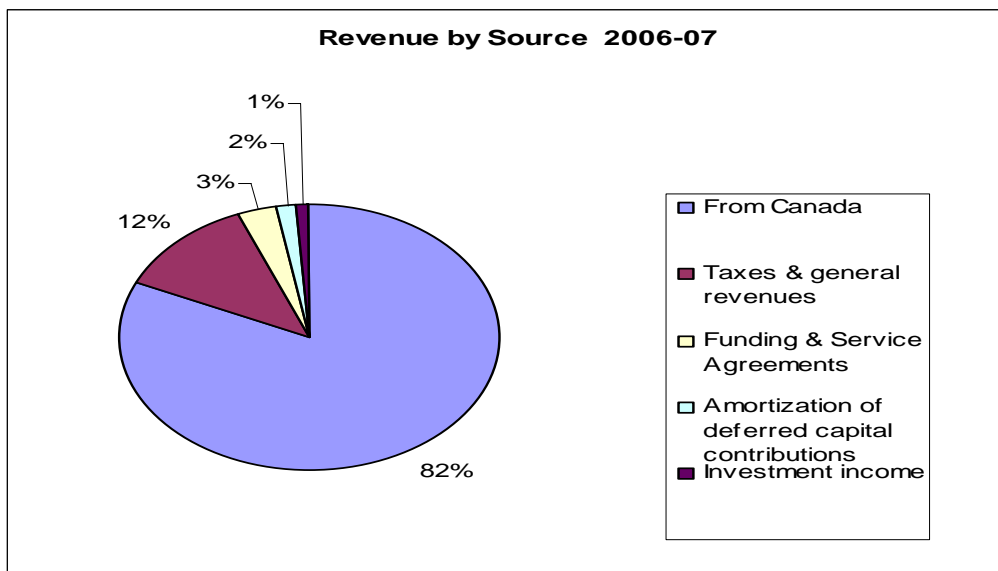
In 2006-07, revenues increased to \$806 million from \$763 million in the previous year.

The Government receives the majority of its revenues from the Government of Canada as a Formula Financing grant. In 2006-07, the Government received \$517 million as a Formula Financing grant. This was an increase of \$23 million or 5% from the previous year. The exact amount of the Formula Financing grant for the fiscal year 2006-07 was determined by federal legislation. As for future years 2007-08 to 2013-14, the federal government has restored the Formula Financing grant to a principle based arrangement, which means 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 2006-07 was the Northern Housing Trust in the amount of \$50 million, the purpose of which is to support investments that increase the supply of affordable housing in the territory. The Northern Housing Trust is allocated as follows: \$32.5 million to Yukon First Nation governments and \$17.5 million to Government housing programs.

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 \$10 million to \$98 million from the previous year. This increase is mainly attributable to the growth in income tax revenues (\$5 million) and interest income (\$4 million).

The investment income of \$9 million (\$8 million in the previous year) reported in the financial statements represents the net results of government corporations that are categorized as government business enterprises. Yukon Government 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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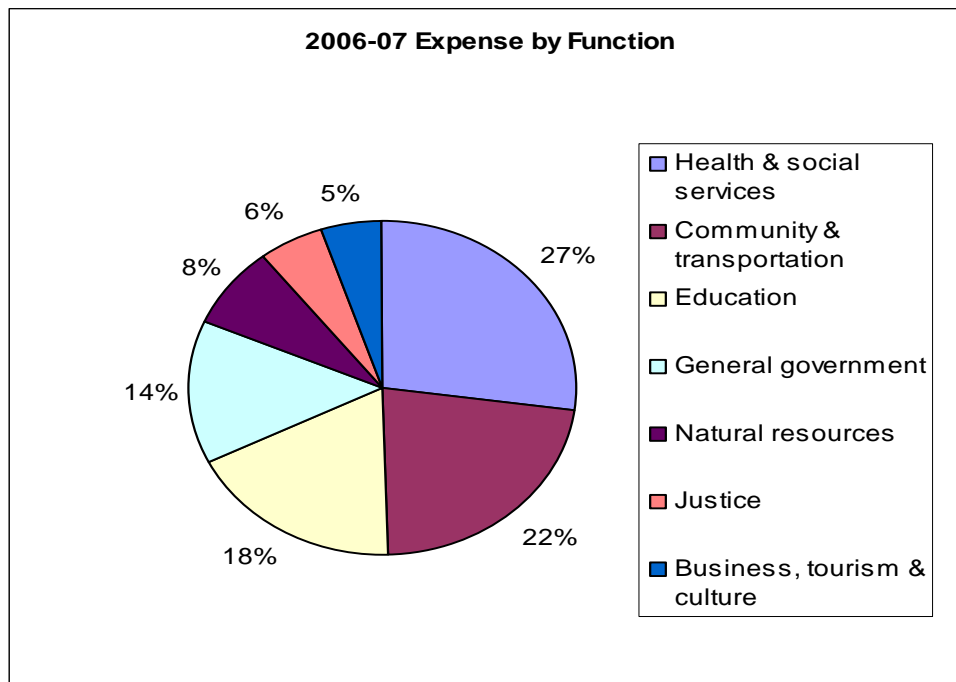
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**Expenses**

In 2006-07, the ratio of expenses by function remained consistent with the previous year, with health and social services, community and transportation, and education comprising 67% of total expenses (66% in 2005-06).

Over all, expenses increased by 8% or \$55 million to \$739 million from the previous year's expenses of \$684 million. The largest increase was in the community and transportation function, with an increase of \$22 million, followed by \$15 million increase in health and social services. The increase in the community and transportation function was largely due to increased capital transfers to municipalities corresponding to the funding received from the Government of Canada under the Canadian Strategic Infrastructure Fund and the Municipal Rural Infrastructure 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 (45%), followed by procurement of goods and services (33%), transfer payments (17%) and amortization expenses (5%). This ratio is consistent with the previous year.

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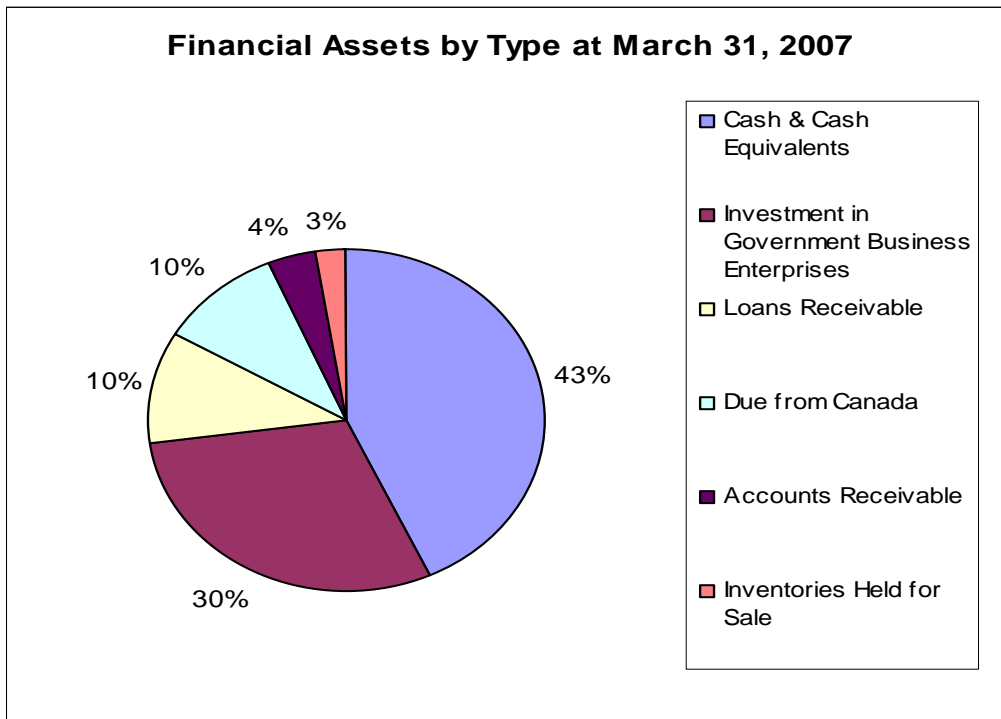
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**Assets**

**Financial Assets**

Financial assets consist of assets available to discharge existing liabilities or to finance future activities. At March 31, 2007, total financial assets were \$470 million, an increase of \$45 million from the previous year's total of \$425 million. This increase is mainly attributable to the increase in cash and cash equivalents.

Financial assets by type are shown below:



Cash and cash equivalents, which amount to approximately \$202 million, 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. The largest portion of cash and cash equivalents is comprised of short-term investments which total approximately \$108 million.

Investments in government business enterprises 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.

The Government has loans receivable of \$49 million. 67% of loans receivable, or \$33 million, are Yukon Housing Corporation mortgages receivable. In April 2006, in order to aid the financial restructuring of Dawson City, the Government wrote off \$3.3 million of its loans receivable from Dawson City and restructured the remaining \$1.5 million, including a bank loan.

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Due from Canada, which amounts to approximately \$48 million, represents claims receivable from the Government of Canada based on cost-sharing or service agreements. There is \$14 million worth of unpaid claims by Indian and Northern Affairs Canada for services that the Government provides.

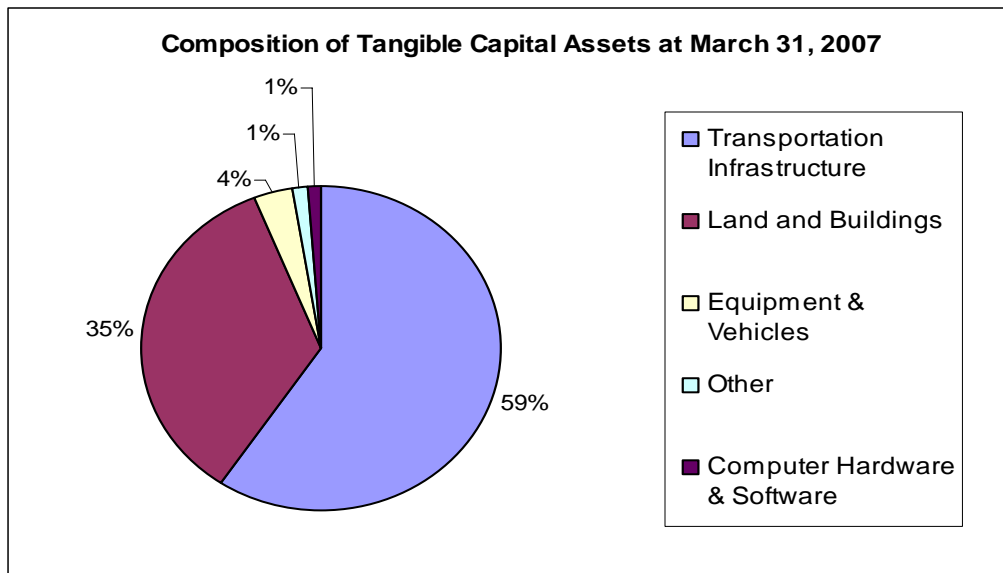
**Non-financial assets**

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, 2007, the Government owned and used tangible capital assets valued at \$925 million for its program delivery, up \$54 million from the previous year of \$872 million. Of those assets, \$487 million or 53%, 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:



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.



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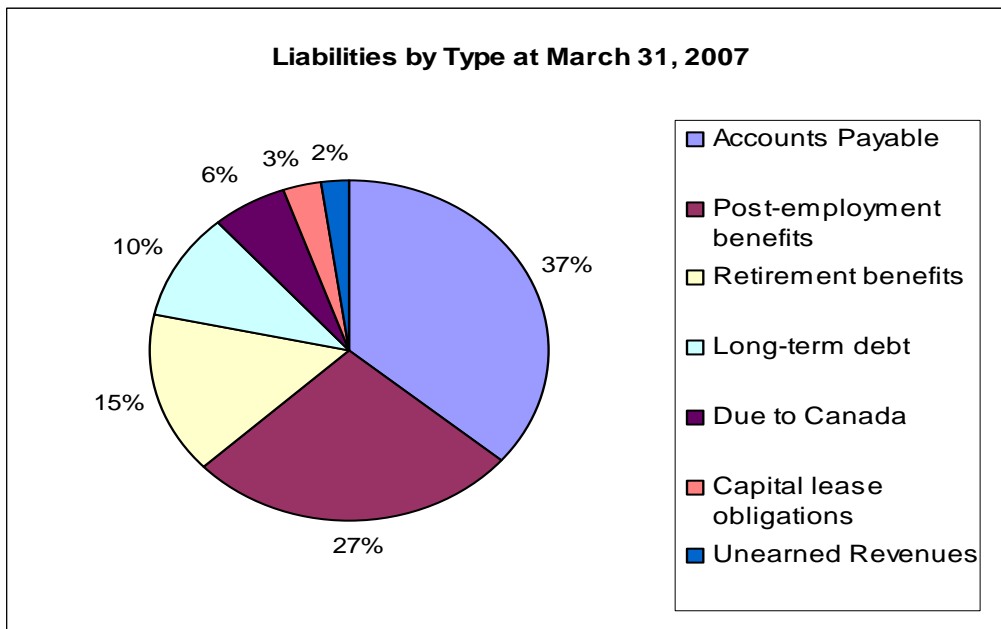
In 2006-07, the Government made the following investment in tangible capital assets:

	(millions)
Opening balance at April 1, 2006	\$872
Investment during the year	91
Less: Disposal and write-downs	(1)
Amortization	(37)
<b>Balance at March 31, 2007</b>	<b>\$925</b>

Of the \$91 million invested in tangible capital assets during the year, \$47 million was funded by other governments. The largest capital funding the Government received in the fiscal year 2006-07 was from the U.S. Government under the Shakwak Agreement for reconstruction of the Alaska Highway. In 2006-07, the Government received \$42 million (2006 - \$29 million) pursuant to the Shakwak Agreement.

**Liabilities**

The liabilities of the Government at March 31, 2007 totaled \$201 million (\$203 million at March 31, 2006), which is equivalent to 43% of the financial assets of the Government. The total composition of liabilities by category remained reasonably consistent with the previous year's totals.



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#### Accounts Payable

Accounts payable includes accrued liabilities that were estimated prior to the receipt of actual invoices. Accounts payable increased from the previous year by \$8 million or 12%, bringing the total payable to \$73 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, 2007 was \$54 million (\$50 million at March 31, 2006).

#### Retirement Benefits

The retirement benefit liability of \$31 million at March 31, 2007 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 Yukon government employees. The Government contributed \$24 million to the Public Service Pension Plan in 2006-07 (2006 - \$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. This saving will be recognized in the fiscal year 2007-08.

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 entered into a funding agreement with the College to provide \$1.25 million per year for five years and a contribution agreement with the Yukon Hospital Corporation to provide funding totaling \$17 million over ten years.

#### Long-term Debt

The largest portion of the \$21 million reported as long-term debt is mortgages payable by the Yukon Housing Corporation totaling \$17 million. The Government does not believe there is any collection risk associated with these long-term debts.

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**Net Financial Resources and Accumulated Surplus**

At March 31, 2007, the Government's financial assets exceed its liabilities, resulting in net financial resources of \$269 million (\$223 million at March 31, 2006). 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, 2007 was \$714 million (\$647 million at March 31, 2006).