

GOVERNMENT OF YUKON

Financial Statement Discussion and Analysis
for the year ended March 31, 2020

Highlights

Introduction

The Yukon Public Accounts is a key element of the Government of Yukon's ("the Government") commitment to transparency and accountability in financial reporting. 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. To do this effectively, this report presents a highlights summary, comparative financial information and analysis. Responsibility for the preparation of this discussion and analysis rests with the Office of the Comptroller.

Financial Results

(thousands of dollars)

	2020		2019	Change from	
	Main Estimates	Actual	Actual	Budget	2019 Actual
Revenues	1,477,775	1,475,935	1,400,133	(1,840)	75,802
Expenses	1,474,015	1,478,577	1,397,821	4,562	80,756
Surplus / (Deficit)	3,760	(2,642)	2,312	(6,402)	(4,954)
Net Financial Assets	171,307	171,888	218,450	581	(46,562)
Accumulated Surplus	1,864,182	1,852,971	1,856,826	(11,211)	(3,855)

2019-20 Highlight Summary

The Government is reporting an annual deficit of \$2.6 million on a spending and revenue base of approximately \$1.5 billion. The difference between the \$2.6 million deficit and the expected \$3.8 million surplus presented in 2019-20 budget is due to lower revenues (\$1.8 million, or 0.1%), and higher than anticipated expenses (\$4.6 million, or 0.3%). Revenues were lower than budgeted largely due to lower than expected funding and service level agreements with other parties and lower than expected income from investment in government business enterprises. Expenses were higher than budgeted largely due to higher than expected expenses in the community and transportation function and the health and social services function. Some areas of government incurred unanticipated end-of-year expenses to support the government's initial COVID-19 emergency response.

The deficit figure of \$2.6 million is \$4.9 million less than the \$2.3 million surplus in 2018-19. Total revenues from year to year increased by \$75.8 million (5%), while total expenses increased by \$81.5 million (6%). The increases in revenue were driven by a \$89.4 million increase in funding from Canada. Over half (53%) of the increase in expenses was in the health and social services function.

The Government continues to be in a net financial asset position, with a balance of \$171.9 million at March 31, 2020 (\$218.5 million at March 31, 2019).

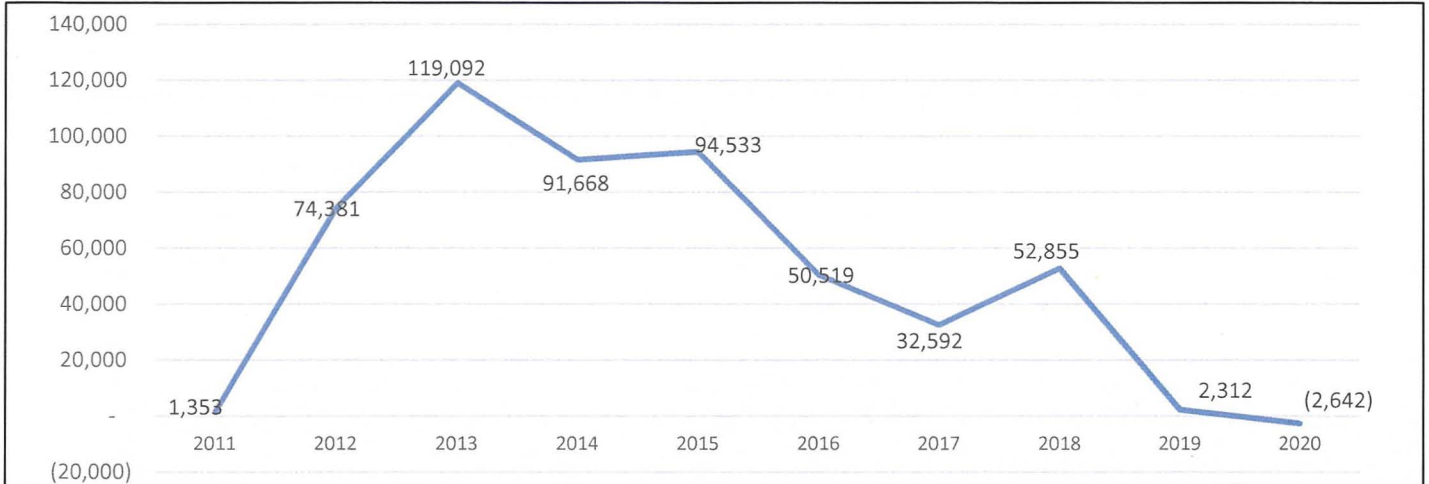
Highlights

Surplus (Deficit)

The surplus (deficit) represents the amount by which revenue exceeds expense (expense exceeds revenue) for the fiscal period.

Surplus (Deficit)

(thousands of dollars)

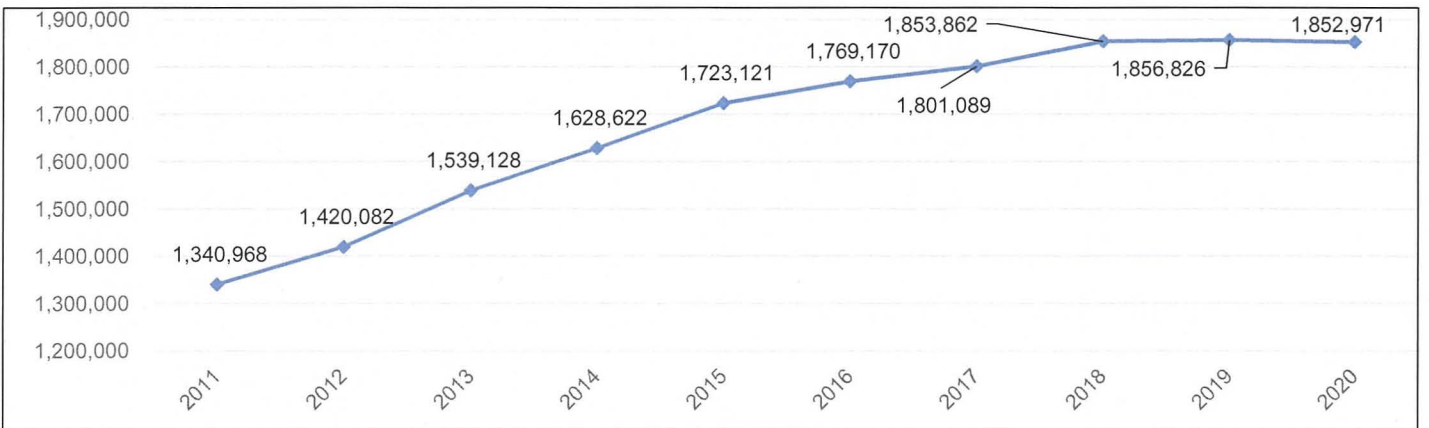


The deficit of \$2.6 million for the year was a decrease of \$4.9 million from the previous year's surplus of \$2.3 million, and \$6.4 million less than the initially planned surplus of \$3.8 million. Surplus is driven by two factors - revenues and expenses. Revenue is largely made up of the Formula Financing Grant from the Federal Government and tends to be stable over time. Expenses are a result of direct government spending and transfers to service the immediate Territorial needs. Compared to 2018-19, the current year decrease in surplus is largely due to increases in expenses particularly in the health and social services and community and transportation sectors including some COVID-19 related expenses late in the year.

Accumulated Surplus (Deficit)

(thousands of dollars)

An accumulated surplus (deficit) represents the government's reported net economic resources (shortfall). An accumulated surplus (deficit) indicates that a government has (requires) additional economic resources to provide future services.



As of March 31, 2020, the Government is reporting an accumulated surplus of almost \$1.853 billion which is a decrease of \$3.9 million from the previous year's surplus of almost \$1.857 billion. The decrease in accumulated surplus during 2019-20 is due to the current year's deficit of \$2.6 million and other comprehensive loss related to the investment in government business enterprises of \$1.2 million.

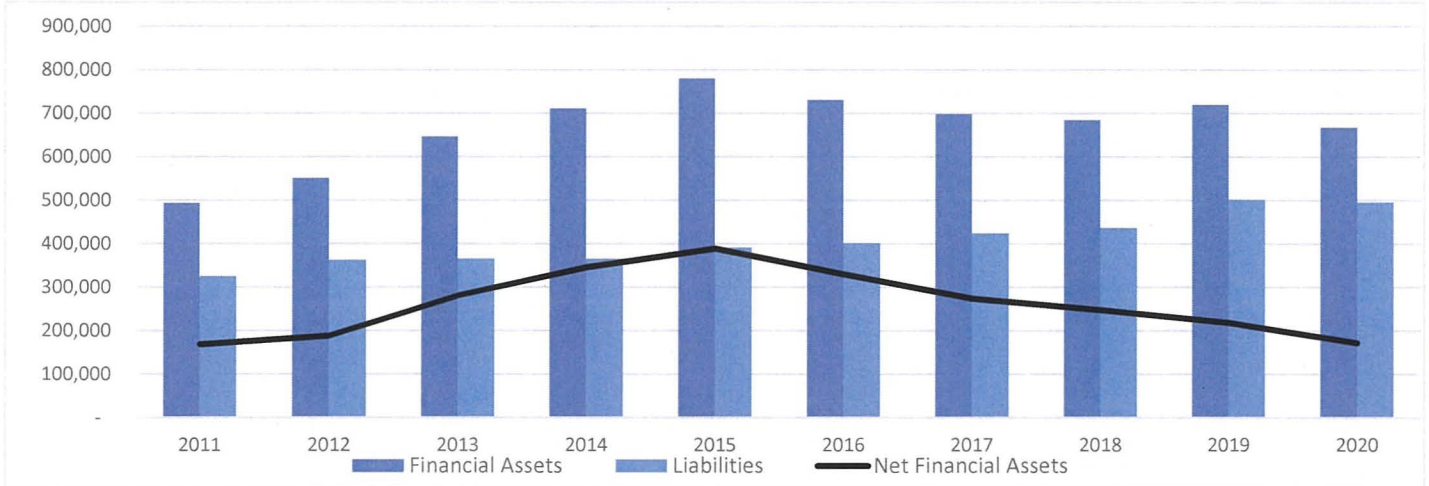
Highlights

Net Financial Assets

Net financial assets represent the amount of financial assets that the Government has to finance future transactions.

Net Financial Assets

(thousands of dollars)



The net financial assets reported as of March 31, 2020 is \$171.9 million. The year to year decreases are a result of decreased resources largely related to increased acquisition of capital assets tied to the Government's continued investment in infrastructure.

Accumulated Surplus consists of Net Financial Assets plus Non-Financial Assets. Non-Financial Assets are predominately Tangible Capital Assets. So the strategy to invest in infrastructure has caused a shift in the composition of Accumulated Surplus.

Net Financial Assets Components

(thousands of dollars)

The net financial assets (or the net debt) of the Government is calculated as:

- The Financial Assets consisting of Cash and cash equivalents, Accounts receivable, etc. ; offset by
- The Liabilities consisting of Due to Canada, Accounts payable and accrued liabilities, etc.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Financial Assets	493,742	550,613	646,624	711,245	780,119	731,248	698,324	684,562	720,000	667,475
Liabilities	325,230	362,245	365,512	365,556	391,031	401,239	424,272	436,931	501,550	495,587
Net Financial Assets	168,512	188,368	281,112	345,689	389,088	330,009	274,052	247,631	218,450	171,888

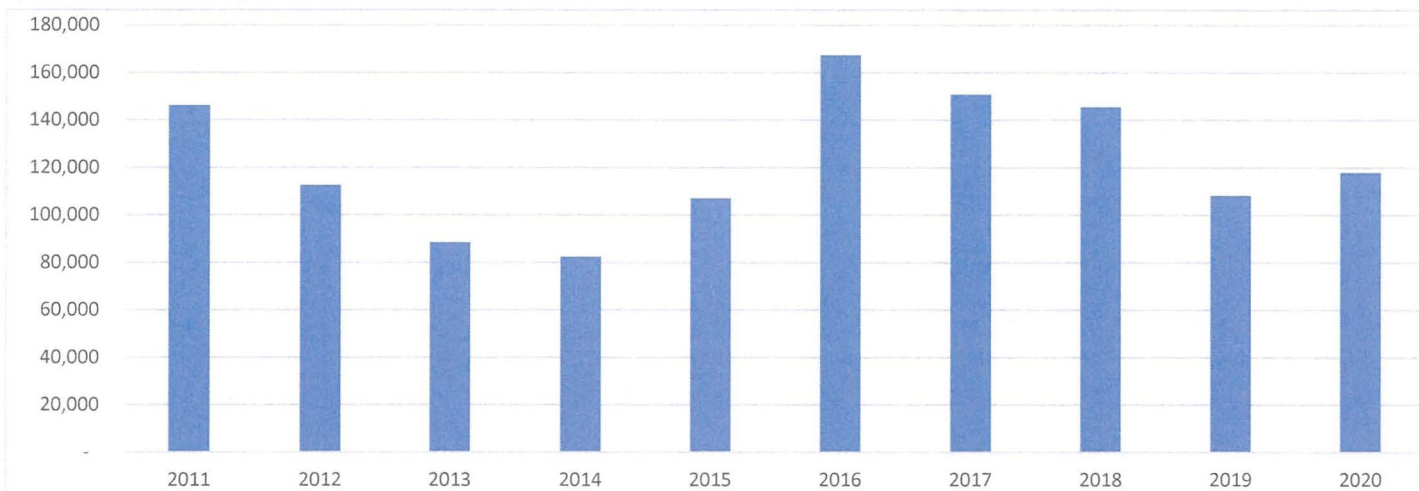
Highlights

Investment in Tangible Capital Assets

The Government invests in tangible capital assets.

Investment in Tangible Capital Assets

(thousands of dollars)



In 2019-20, the Government recorded tangible capital asset additions for the development of assets such as buildings and transportation infrastructure of \$118 million, compared to \$108 million in the previous year. In 2018-19, the Government started the construction of the new Francophone high school which has a forecasted cost of \$35 million. The high school is scheduled to be completed in the winter of 2020-21. The Government has also started the process to build a new elementary school in the Whistle Bend subdivision with an estimated completion date in the 2023-24 fiscal year. In addition, the Government has completed a number of projects such as the upgrade to the Dawson City Airport at a cost of \$12 million, the Nares River Bridge at a cost of \$15 million and the F.H. Collins track and soccer facility at a cost of \$8 million. Looking ahead, the Government is also undertaking the Dempster Fibre project at an estimated cost of \$76 million and an upgrade to the Whitehorse Airport's baggage handling system at an estimated cost of \$7.7 million.

Credit Ratings - March 2020*

Jurisdiction	Rating Agency Standard & Poor's
Yukon	AA
British Columbia	AAA
Alberta	A+
Saskatchewan	AA
Manitoba	A+(pos)
Ontario	A+
Quebec	AA-
New Brunswick	A+
Nova Scotia	AA-
Prince Edward Island	A (pos)
Newfoundland & Labrador	A

*Provincial Ratings as per Government of Saskatchewan Public Accounts 2019-20

On August 7, 2020, Standard & Poor's Rating Services affirmed its 'AA' long-term issuer credit rating of Yukon Territory. In its S&P Global Ratings summary, the rating agency states it believes "the direct fiscal impacts stemming from the COVID-19 pandemic will be less severe for Yukon than for Canadian provinces, given the relatively small proportion of its revenues that have direct exposure to economic activity." The rating agency also stated that, Yukon's "liquidity will remain substantial", "financial management is sound", "debt policy is prudent", and "contingent liabilities are low".

Assessment of Fiscal Health

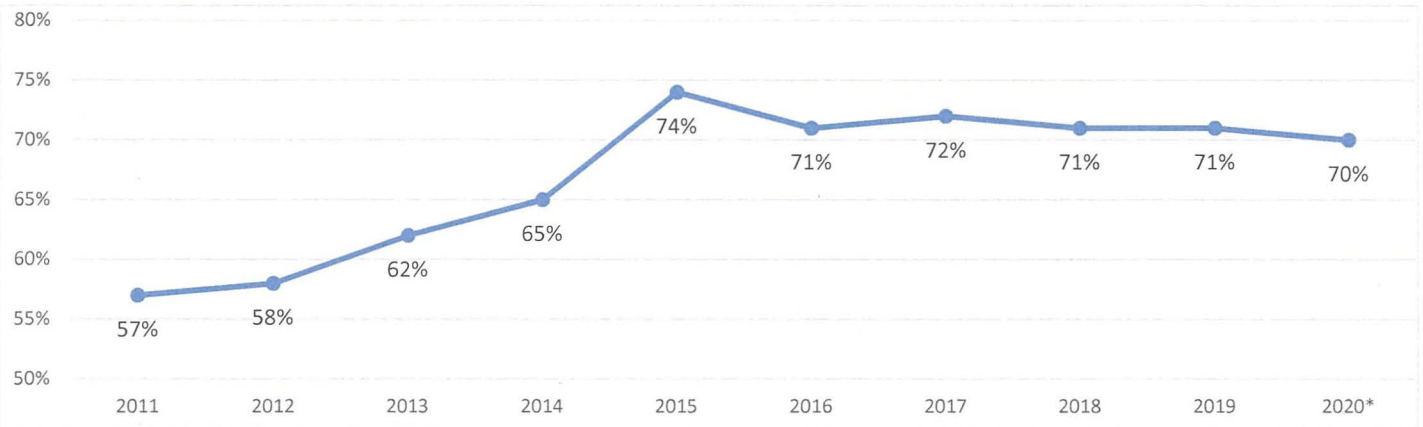
Sustainability

Sustainability is a measure indicating the degree to which the Government can maintain its existing level of spending and meet its existing debt obligations.

Accumulated Surplus to the Territory's GDP

(per cent)

This graph compares the Government's accumulated surplus to the Yukon Territory's GDP as a ratio.



* Forecast 2020 GDP data

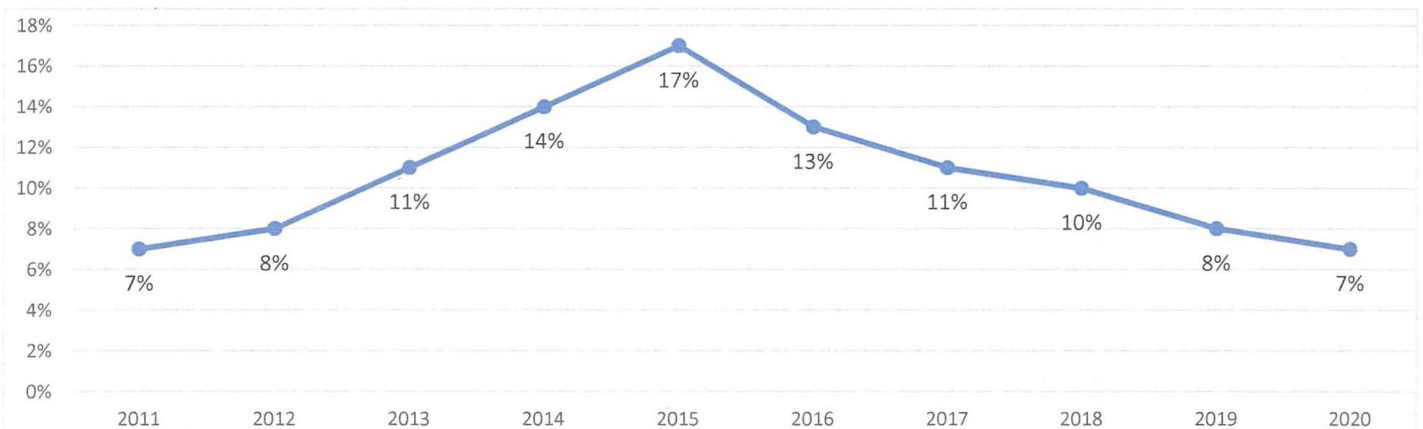
The accumulated surplus measures the sum of all current and prior years' operating results. Gross Domestic Product (GDP) is a measure of the value of the goods and services produced during a year, indicating the size of the Territory's economy. This indicator provides a measure of the role the Government plays in the context of the economy by relating accumulated surplus (deficit) to GDP.

The relatively stable ratio indicates that the Government's surplus (deficit) matched the rate of economic growth in the Yukon. This indicator highlights the prominent role that the Government plays in the territorial economy as its accumulated surplus equates to 70% of the Territory's GDP.

Net Financial Assets to Territory's GDP

(per cent)

This graph compares the Government's net financial assets to the Yukon Territory's GDP as a ratio.



* Forecast 2020 GDP data

Net financial assets is the difference between government's financial assets and its liabilities. 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 net financial asset to GDP ratio indicates the financial demands placed on the economy by the Government's policies such as taxation. A low ratio indicates the Government has not placed excessive demands on the economy. The downward trend implies there is room for the introduction of further revenue sources for the government without causing severe hardship in the economy.

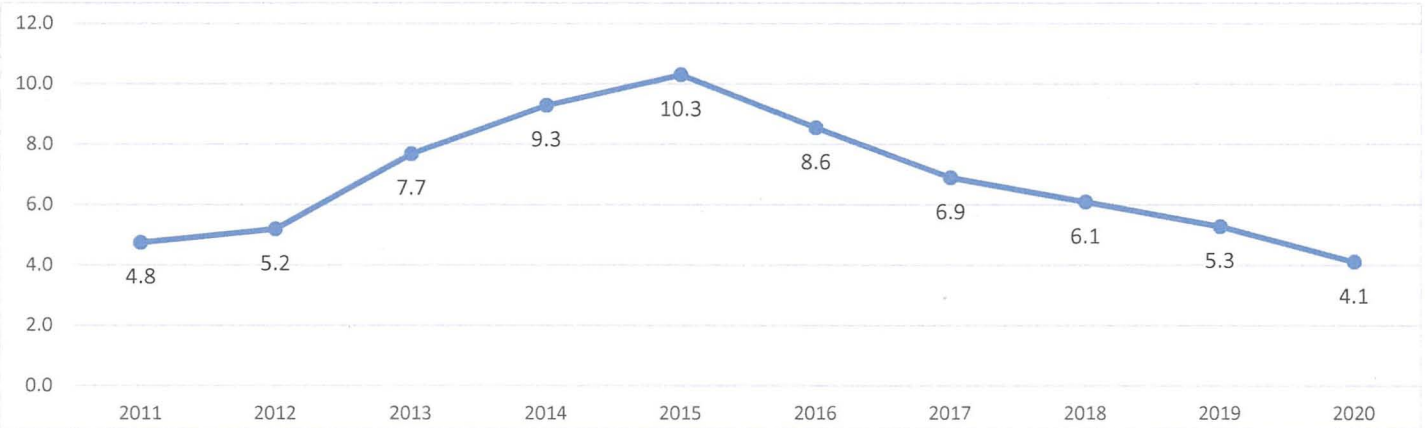
Assessment of Fiscal Health

Sustainability continued

Net Financial Assets per Capita

(thousands of dollars)

Net financial assets per capita represents the net financial assets applicable to each Yukon resident.



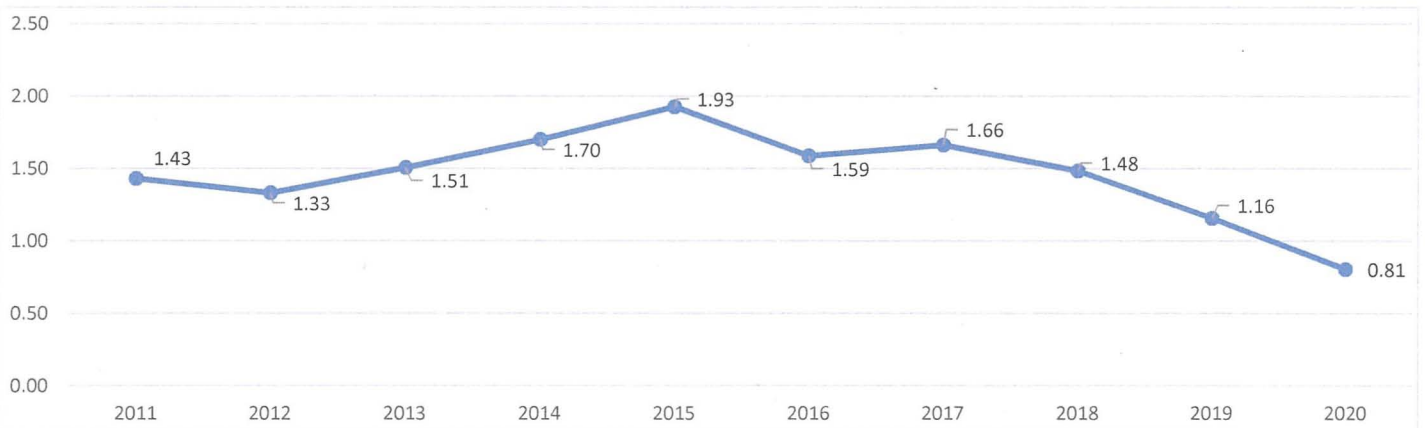
* Forecast 2020 population data

This ratio indicates that the Government's financial resources per resident are declining in part due to the increase in population as well as the Government's increased investment in tangible capital assets such as highways, schools, hospitals and other health facilities.

Liquidity Ratio - Current Assets to Total Debt

(per cent)

In this graph, Current Assets consists of Cash and cash equivalents, Temporary investments, Due from Government of Canada plus Accounts receivable. The Total Debt is as defined in Note 17 to the Financial Statements using the Yukon Borrowing Limits Regulations which includes debt of all entities of the government.



Liquidity ratio's objective is to test the Government's ability to meet its financial obligations. A higher ratio is desirable as it shows that the organization has sufficient financial resources to discharge its long term obligations without having to use further financing.

On March 31st, as per Note 17 Borrowing Limit; the government has Total Debt of \$228.4 million which was 57.1% of the limit allowed at that time. The Government of Canada on September 20, 2020 passed Order in Council #2020-0663 which raises the borrowing limit to \$800 million.

Assessment of Fiscal Health

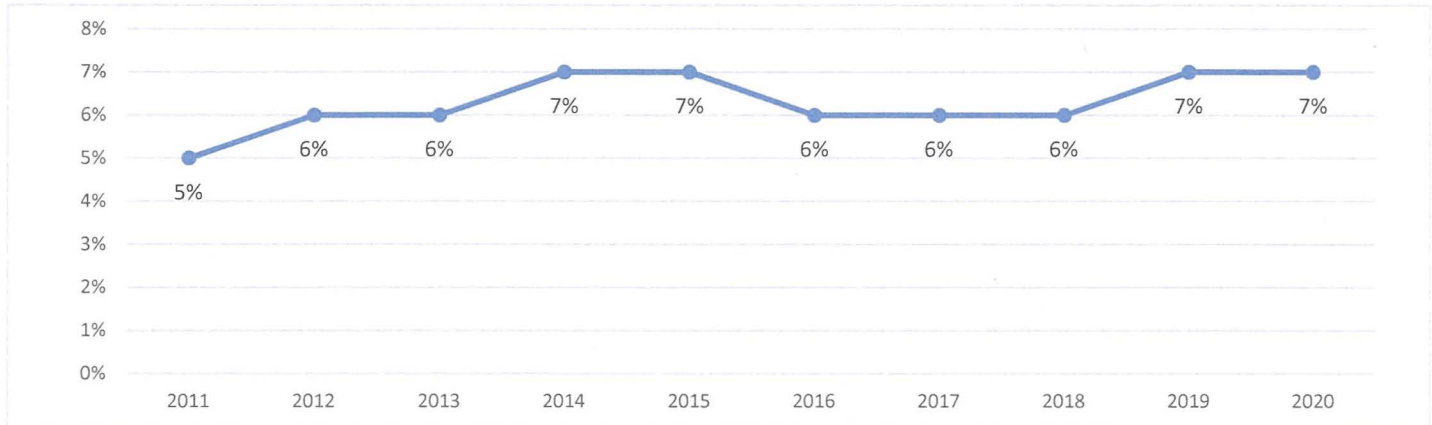
Flexibility

Flexibility is a measure indicating the room that the Government has to maintain its services by increasing its debt or tax burden on the economy.

Own-Source Revenue to the Territory's GDP

(per cent)

In this graph, own-source revenue refers to the Government's taxes and general revenue and is compared against the Yukon Territory's GDP.



* Forecast 2020 GDP data

This ratio indicates to what extent the Government is taking economic resources out of the territory's economy through user fees or taxation. This ratio is relatively constant over time indicating that the Government has not changed its demands on the economy. While the ratio is constant, it is also relatively low compared to other Canadian jurisdictions and indicates that the Government has some flexibility in increasing taxes and other fees without causing a severe impact on the economy.

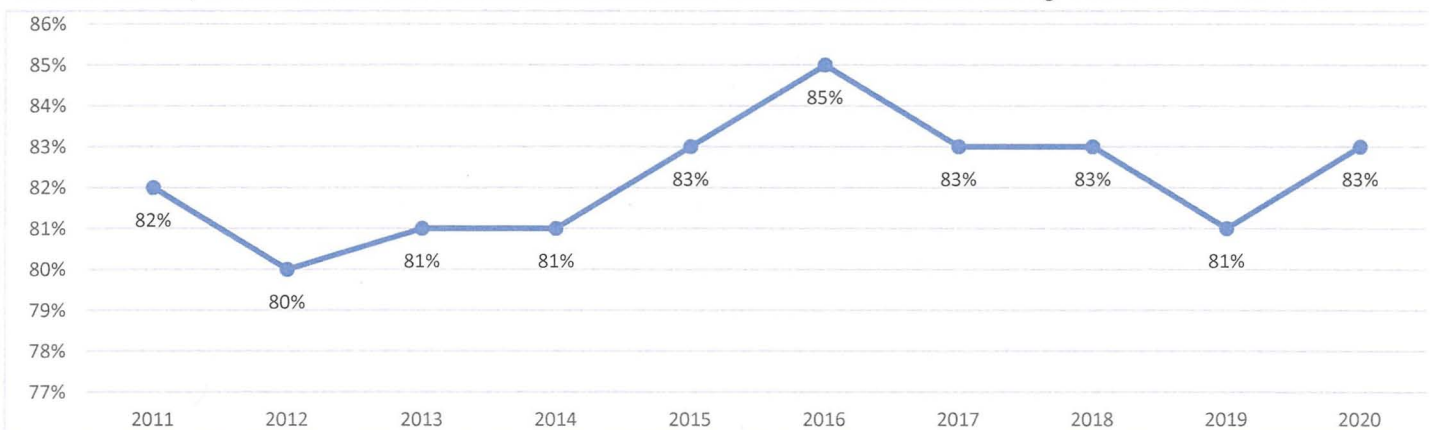
Vulnerability

Vulnerability is the extent to which the Government is exposed to a risk associated with revenue sources that are outside of its control.

Transfers from the Federal Government to Total Revenue

(per cent)

In this graph, transfers from the Federal Government include the Formula Financing Grant, other grants such as Canada Health, Canada Social and Cannabis transfers and Contributions and service agreements with Canada.



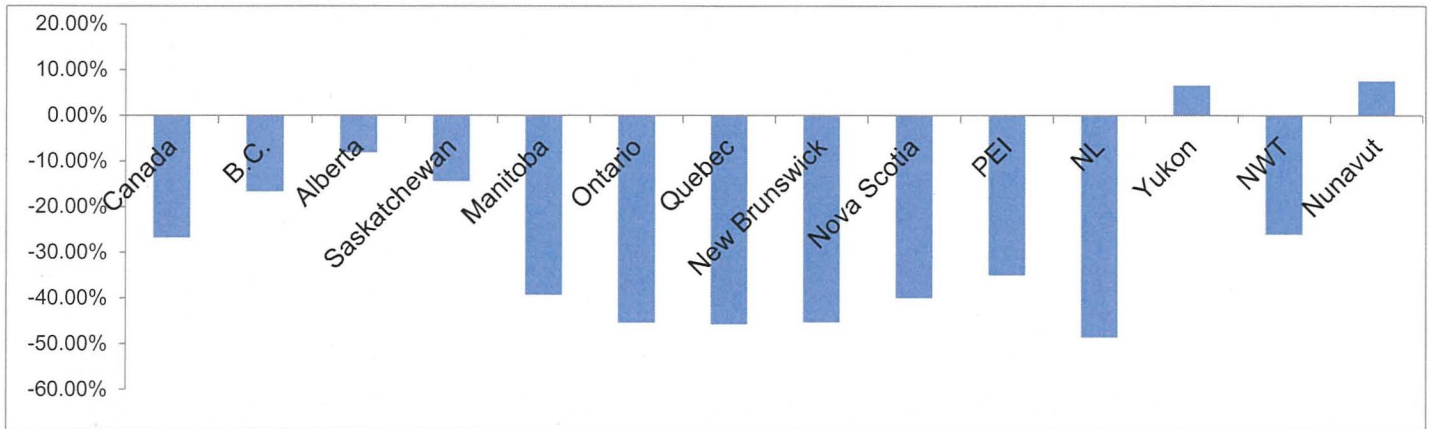
The Government receives transfer payments from the federal government on an annual basis. While the Government has little control over these transfers which poses a risk, it also represents a relatively stable source of revenue from a senior level of government. In 2019-20, the Government received 83% of its revenue from the federal government which was within the ten-year range of 80% to 85%. This ratio is consistently fairly high indicating a high degree of reliance on the federal government to finance Yukon activities.

Indicators of Financial and Economic Conditions

Canadian Jurisdictional Comparison of Net Financial Assets (Net Debt) 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.

Federal/Provincial/Territorial Governments Net Financial Assets (Debt) -GDP ratio, Calendar Year 2018



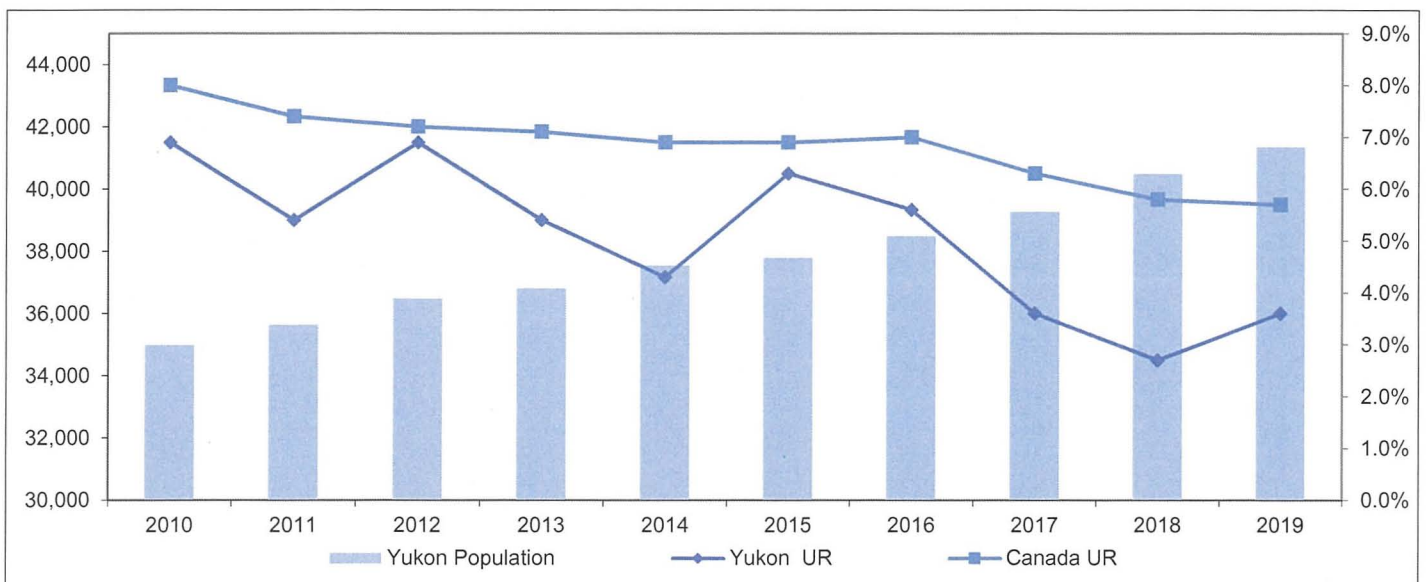
Statistics Canada. Table 379-0030 - Gross domestic product (GDP) at basic prices, by North American Industry Classification System (NAICS), provinces and territories, annual (dollars)

Population and Unemployment rate (Calendar Year 2019)

With growth in 2019, Yukon's population has posted gains for 16 consecutive years. In 2018, total population exceeded 40,000 for the first time.

Yukon's unemployment rate averaged 3.6% in 2019, which was below the national average of 5.7%. As noted in the chart below, over the ten years in question, Yukon's unemployment rate has consistently been below the Canadian average.

Population and Unemployment Rate



Details

Surplus / Deficit 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 deficit of \$2.6 million for the year was a decrease of \$4.9 million from the previous year's surplus of \$2.3 million and \$6.4 million less than the initially planned surplus of \$3.8 million. Revenues increased by \$75.8 million from the previous year's actual and were \$1.8 million lower than initially planned. Actual expenses (net of prior years' expense recoveries) of \$1.479 billion for the year were higher than the initially budgeted amount of \$1.474 billion.

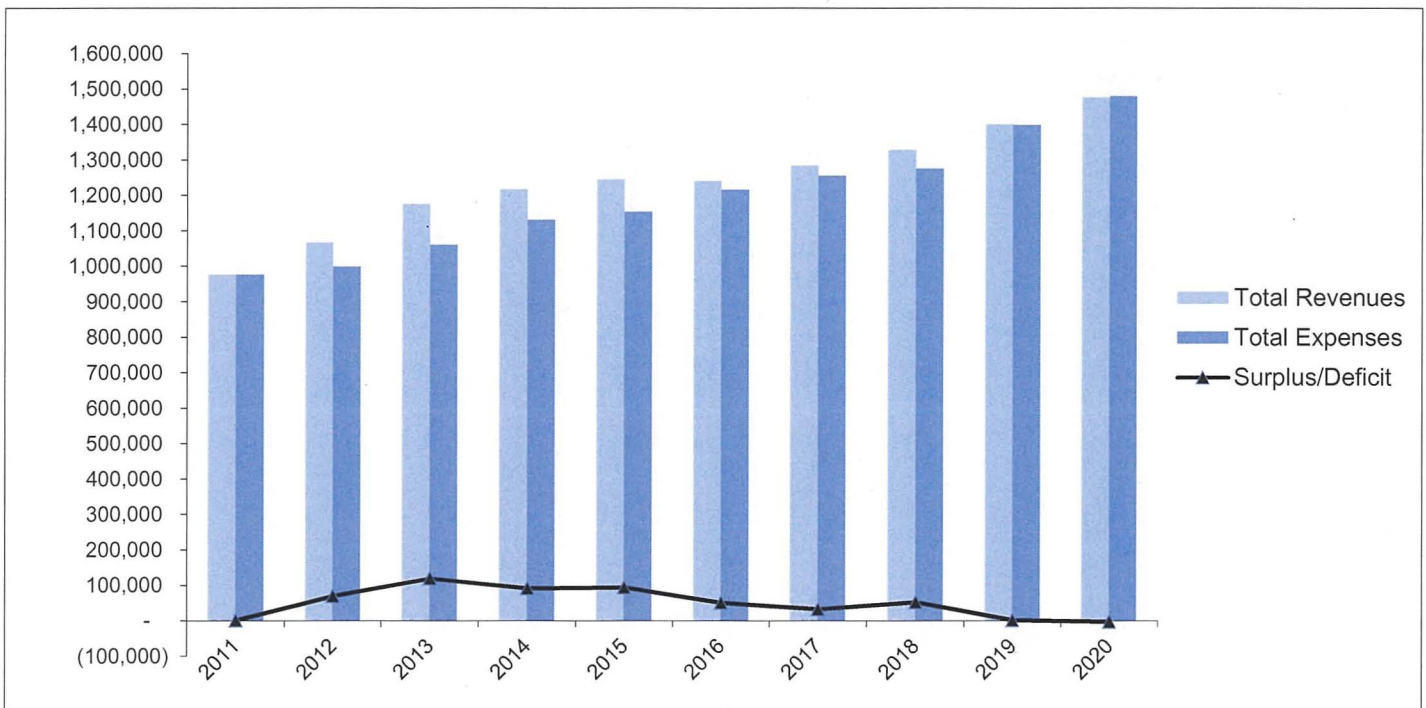
Major revenue variances between the current and prior year include a \$47.2 million (5%) increase in the Formula Financing grant and a \$39.2 million (31%) increase in contributions and service agreements revenues from the Government of Canada. Funding and service agreements with other parties decreased by \$15.5 million (24%) from previous year.

Expenses increased by \$81.5 million (6%) with expenditures for health and social services contributing to the majority of the increase. Community and transportation, education, general government, business, tourism and culture and natural resources also had increased expenditures while justice had a decrease 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.

Revenues and expenses

(thousands of dollars)



Details

Net Financial Assets and Accumulated Surplus

At March 31, 2020, the Government’s financial assets exceeded its liabilities, resulting in net financial assets of \$171.9 million (\$218.5 million at March 31, 2019). This important indicator shows that the Government has financial assets on hand to finance future operations.

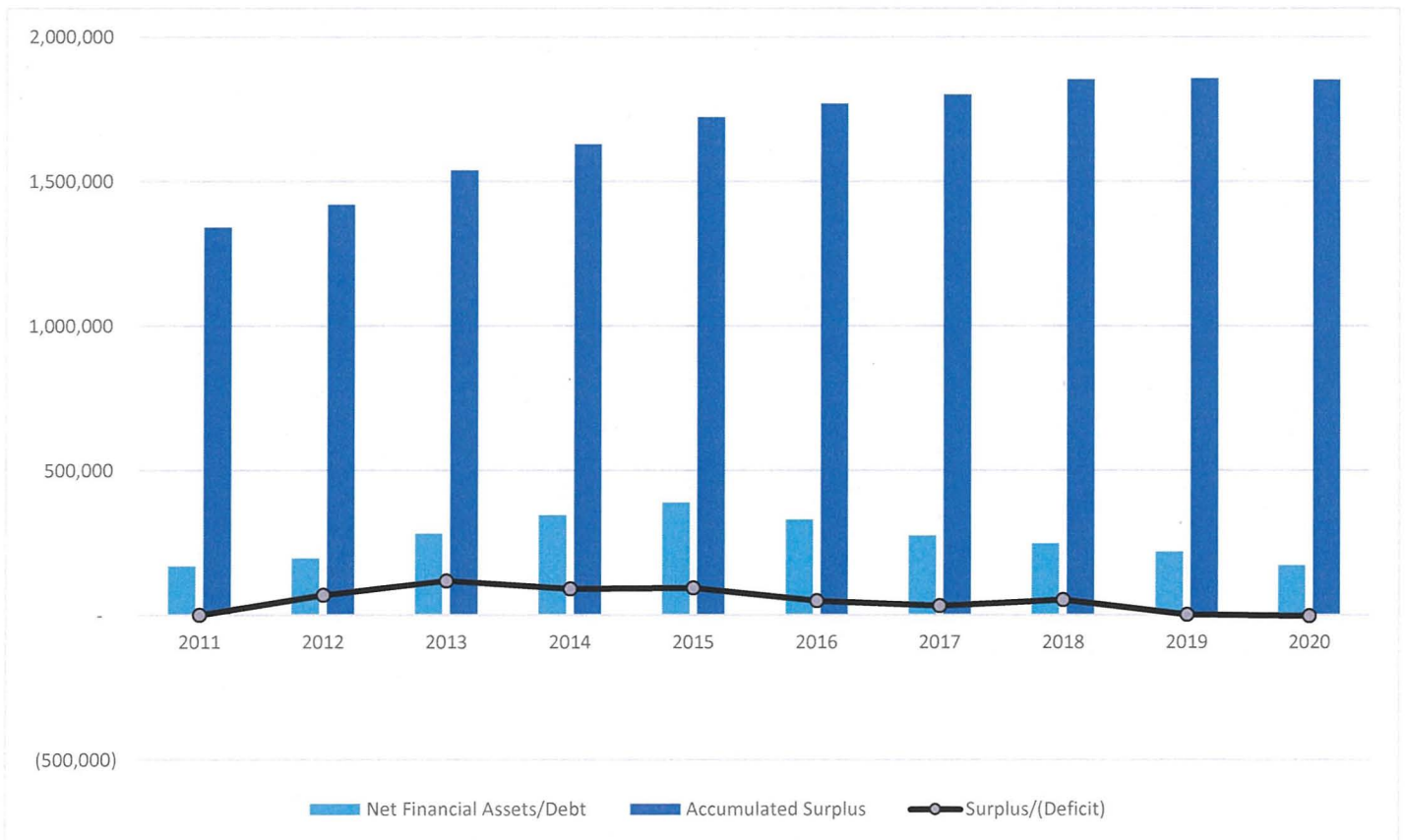
The Government’s net financial assets decreased by \$46.6 million in 2019-20. This decrease was largely due to the decrease of \$52.5 million in Financial Assets offset slightly by the decrease in Liabilities of \$5.9 million. The decreases in Cash and cash equivalents of \$49.2 million and Temporary investments of \$42.5 million along with the offsetting increase of \$23.9 million in Due from Government of Canada represent the largest changes.

The Government’s liabilities decreased by \$5.9 million. This decrease was largely due to the decrease of \$12.9 million in unearned revenues and an increase of \$7.3 million in retirement benefits.

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, 2020 was \$1.853 billion (\$1.857 billion at March 31, 2019). The \$46.6 million decrease in net financial assets was offset by \$42.7 million increase in non-financial assets.

Net Financial Assets, Accumulated Surplus and Surplus(Deficit)

(thousands of dollars)



Details

Revenues

In 2019-20, the Government's total revenues increased from the previous year by \$75.8 million (5%) to \$1.476 billion, (details provided in Schedule A to the Consolidated Financial Statements).

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 2019-20, the Government received \$997.4 million as the Formula Financing grant. This was an increase of \$47.2 million (5%) from the previous year. The Canada Health Transfer was \$43.9 million and the Canada Social Transfer was \$15.9 million. These transfers increased from the previous year by a total of \$0.5 million (1%).

In addition to the main grant and transfers, 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 increased from the previous year by \$39.2 million (31%) to \$165.4 million.

Taxes and general revenues include taxes on corporate income, personal income, tobacco, liquor, fuel, insurance premiums and property as well as licenses and fees such as motor vehicle licenses and business/professional fees. Taxes and general revenues increased from the previous year by \$8.1 million (4%) to \$196.0 million. This was largely due to a \$3.3 million increase in revenue from income taxes and a \$3.8 million increase in the sale of land.

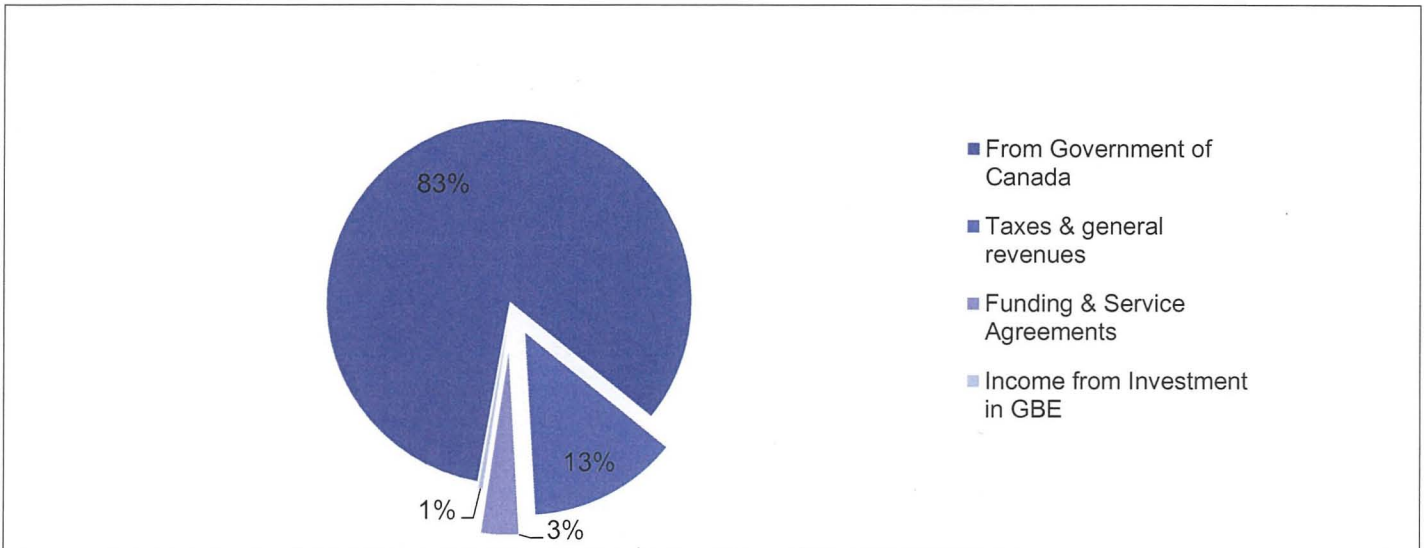
Funding and service agreements with other parties decreased from the previous year by \$15.5 million (24%) to \$49.2 million.

The income from investment in government business enterprises reported as revenue in the financial statements represents the net operating results of government corporations that are categorized as government business enterprises ("GBE"). Government of Yukon business enterprises include the Yukon Liquor Corporation ("YLC") and the Yukon Development Corporation ("YDC"), which reports its results consolidating the Yukon Energy Corporation. Income from YLC was \$9.6 million and was offset by a loss from YDC of \$4.1 million.

Revenues were less than the initially budgeted amounts by \$1.8 million. This was primarily due to lower than forecasted revenues from funding and service agreements with other parties and operating income from investment GBE revenue.

In 2019-20, the composition between different types of revenue remained consistent with previous years.

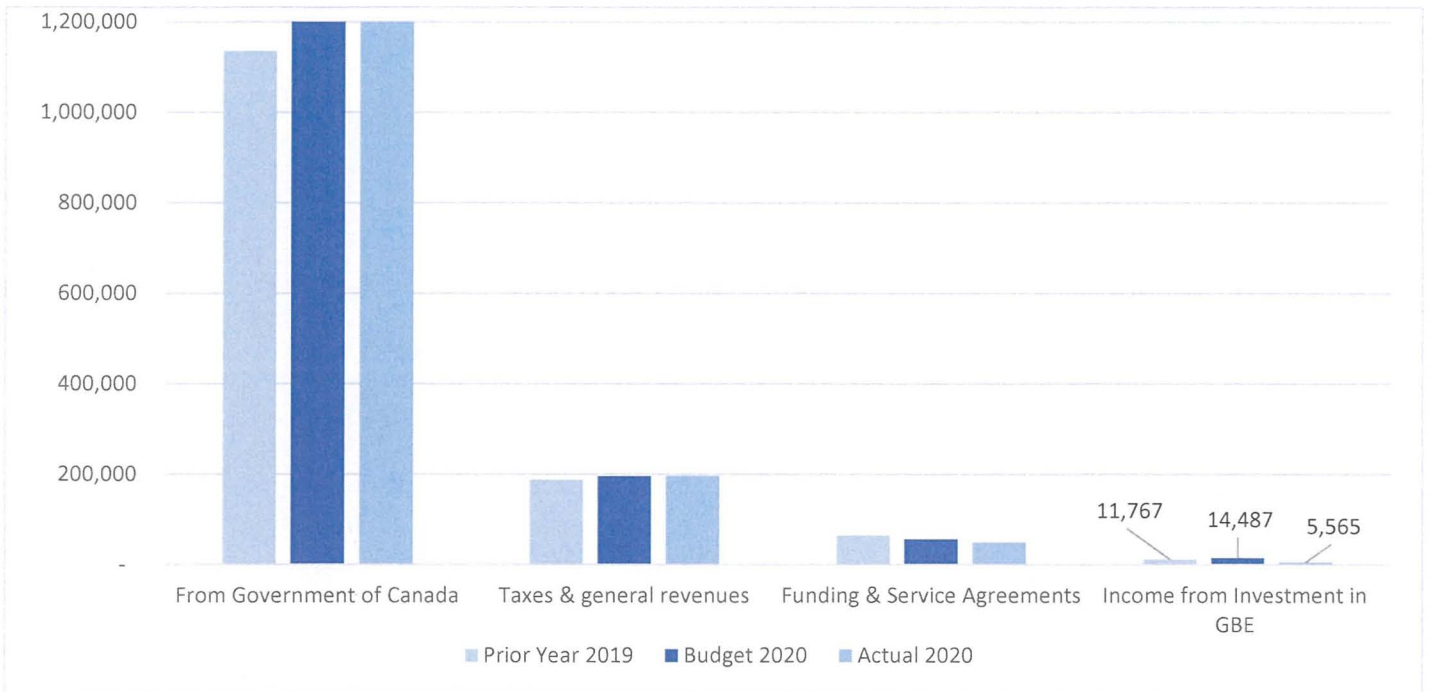
Revenue by source



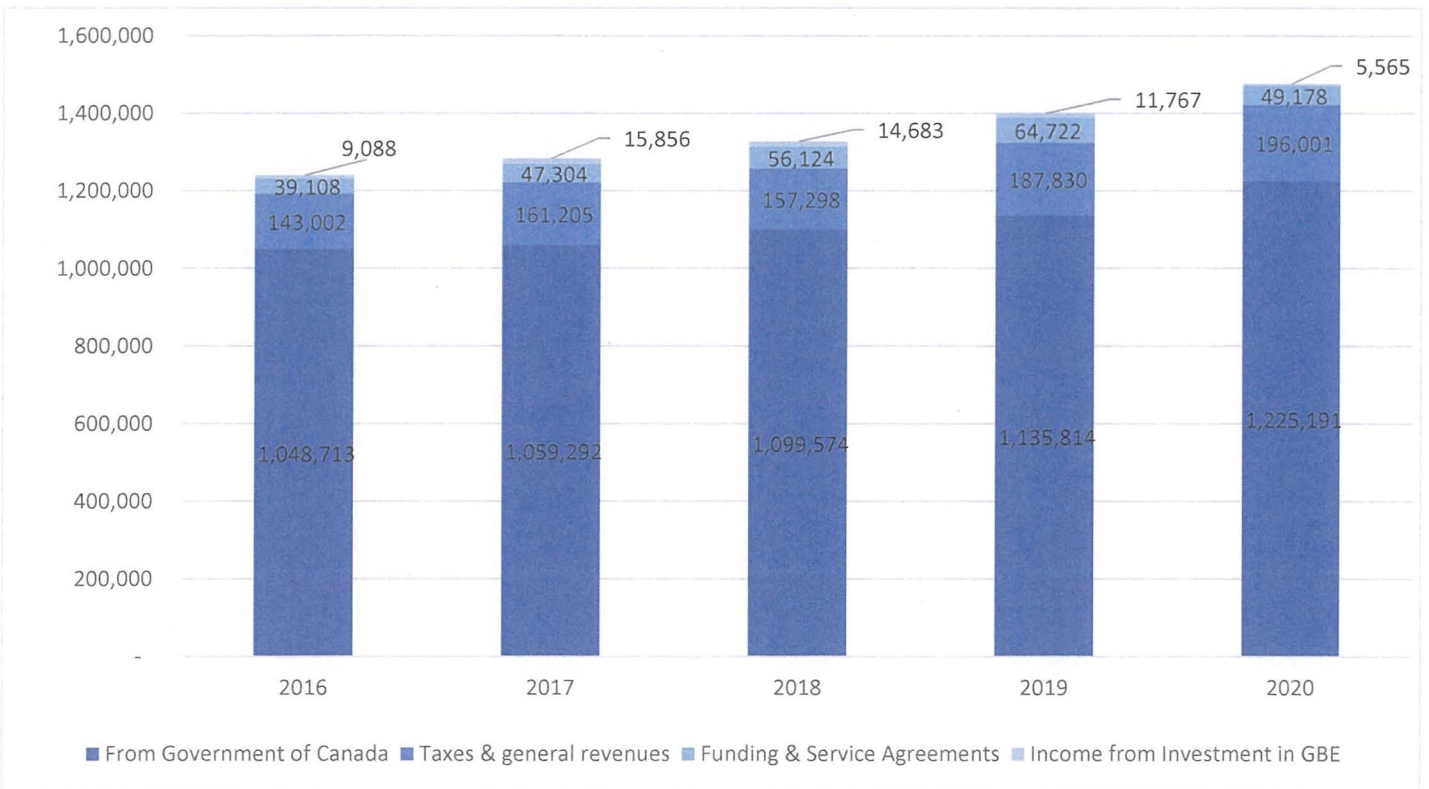
Details

Revenues continued

Revenue by source - comparison to budget and prior year



Revenue by source five year trend comparison



Details

Expenses

Overall, expenses increased from the previous year by \$81.5 million (6%) to \$1.479 billion, (details provided in Schedule B to the Consolidated Financial Statements).

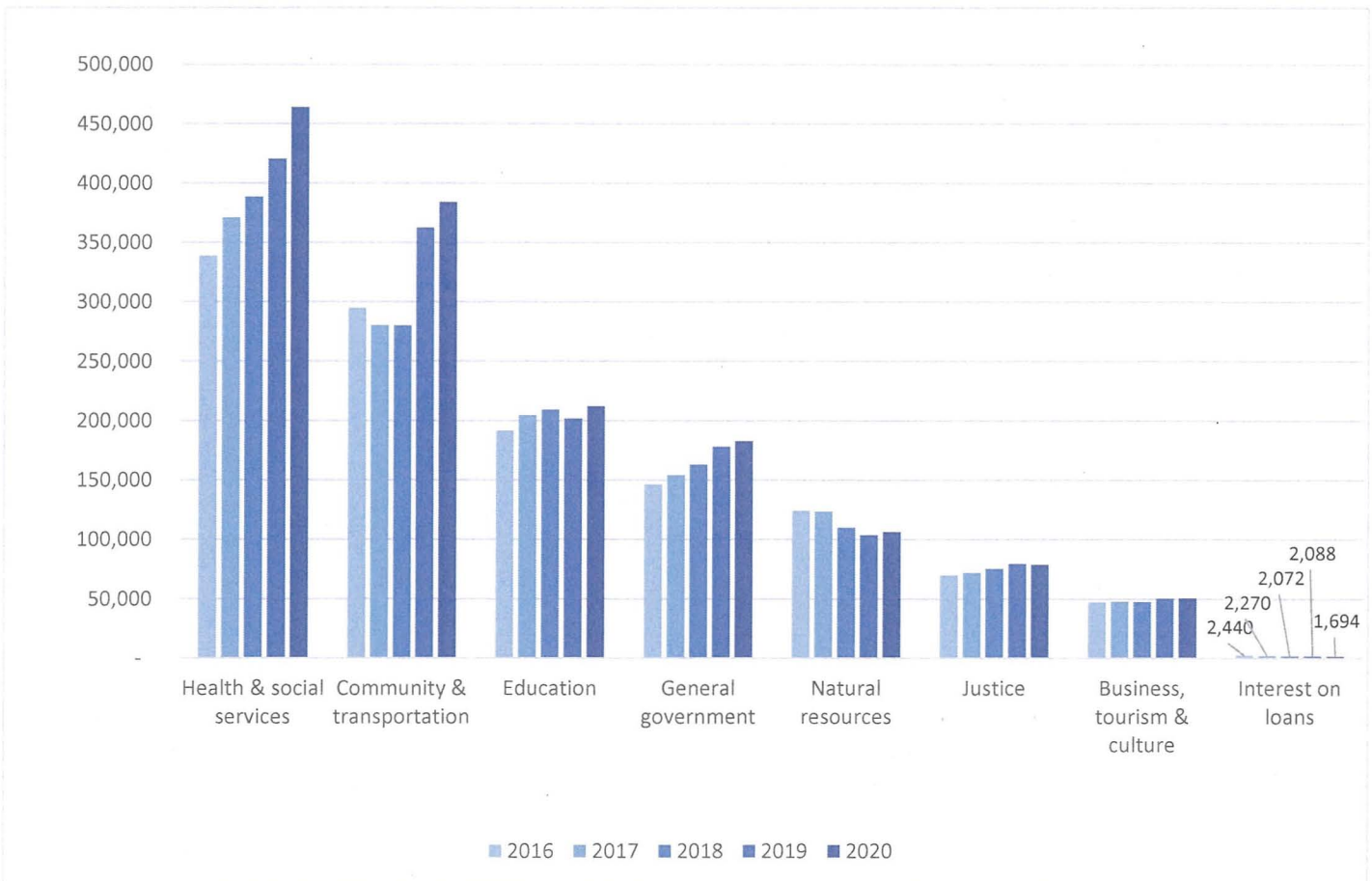
The largest increase was in the health and social services function, with an increase of \$43.2 million, followed by a \$21.6 million increase in community and transportation while the justice function decreased by \$0.8 million.

As for the type of expenses (as detailed in Note 21 to the Consolidated Financial Statements), the highest percentage was for wages and benefits (44%), followed by procurement of goods and services (32%), transfer payments (19%) and amortization expenses (5%). These percentages are consistent with those in previous years.

In 2019-20, the ratio of expenses by function remained consistent with the previous year, with health and social services, community and transportation, and education comprising 71% of total expenses (70% in 2018-19).

Expenses by function five year trend comparison

(thousands of dollars)

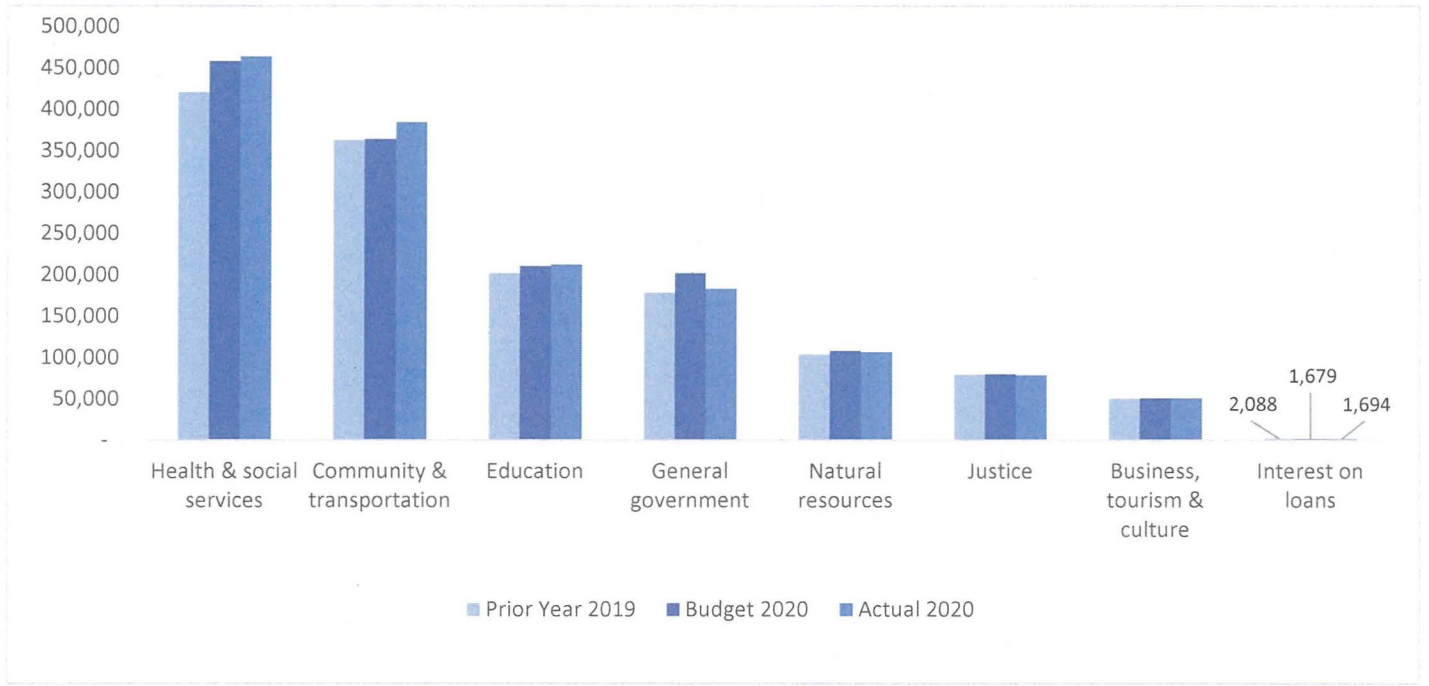


Details

Expenses continued

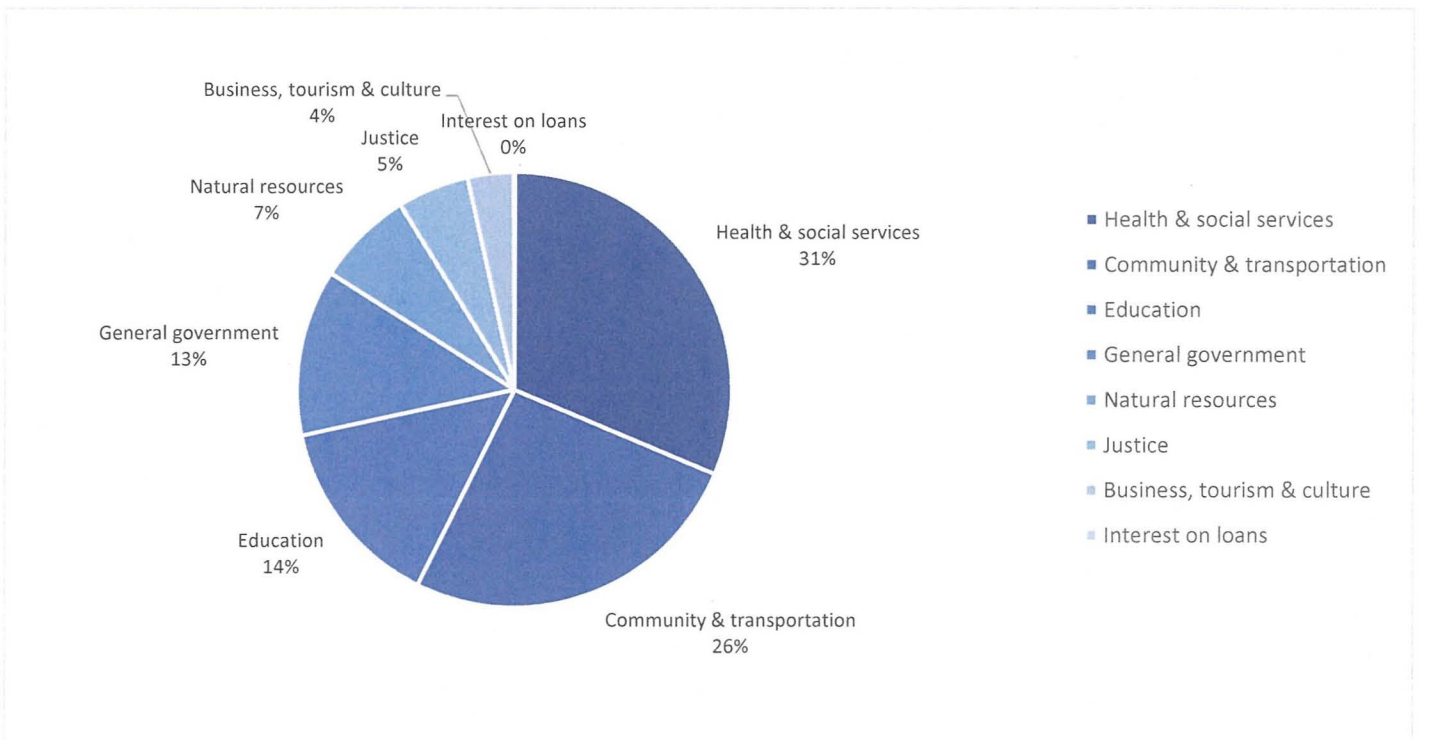
Expenses by function comparison

(thousands of dollars)



Expense by function

(per cent)



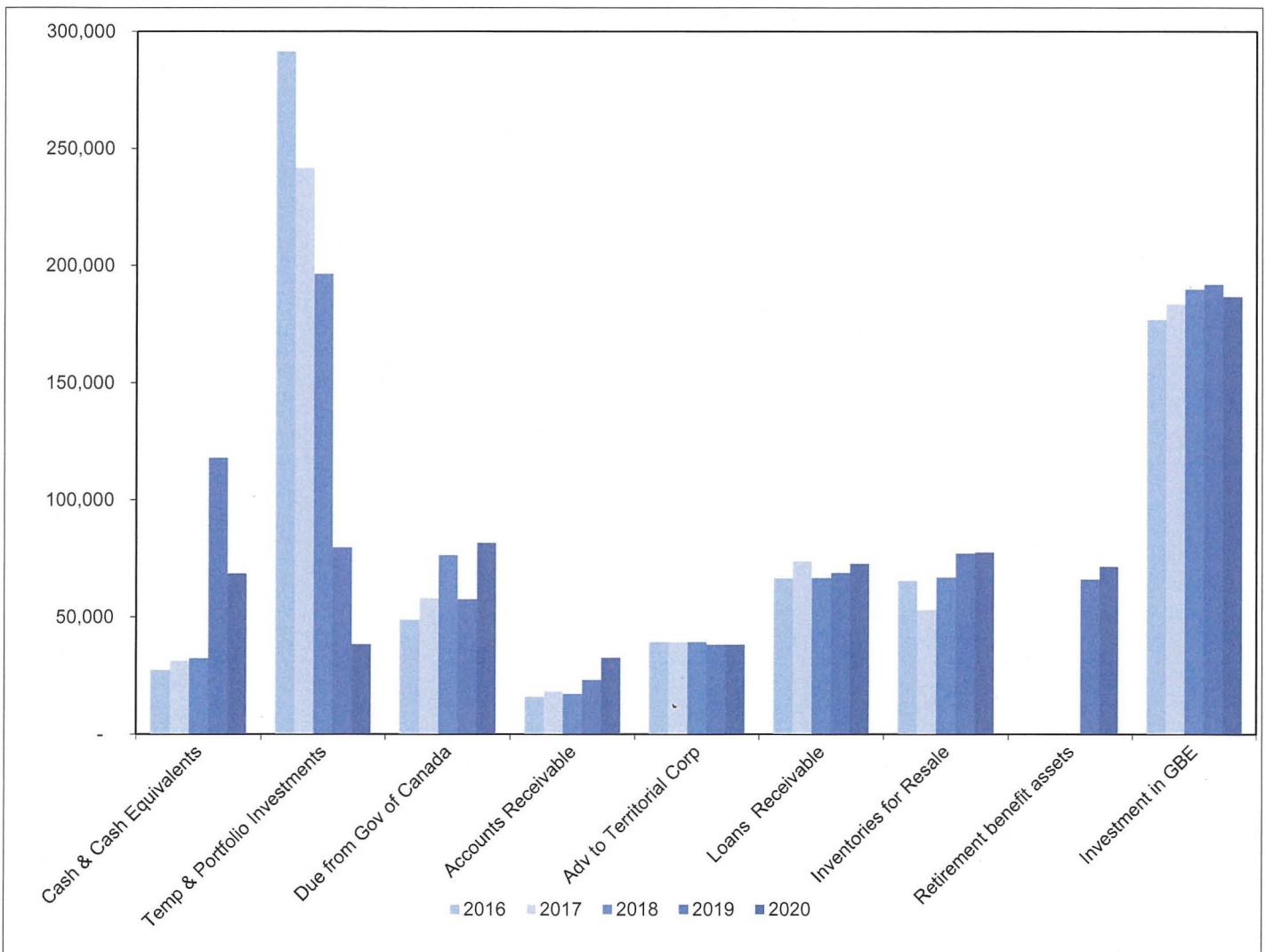
Details

Financial Assets

Financial assets consist of assets available to discharge existing liabilities or to fund future activities. At March 31, 2020, the value of total financial assets was \$667.5 million, which is a decrease of \$52.5 million from the previous year. Within financial assets, cash and cash equivalents decreased by \$49.2 million from the previous year while temporary investments decreased by \$42.5 million. Due from Canada increased by \$23.9 million, accounts receivable increased by \$9.5 million and loans receivable increased by \$3.8 million. In 2019-20, cash and cash equivalents and temporary investments accounted for \$69.8 million, or 10% of the total financial assets compared with 2018-19 where they accounted for \$161.6 million or 22%.

Financial Assets by type

(thousands of dollars)



(Note: In 2018-19 the Government reclassified its retirement benefit plans to present Retirement benefit assets and Retirement benefit liabilities separately).

Details

Financial Assets continued

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, 2020, the Government held \$68.5 million in cash and cash equivalents, which is a decrease of \$49.2 million from the previous year.

Temporary investments

Temporary investments include treasury bills, GICs, term deposits, and funds that include short-term debt securities of Canadian governments and corporate issuers with terms to maturity of 90 days or more but one year or less from the date of acquisition. At March 31, 2020, the Government held \$1.3 million in temporary investments compared to \$43.8 million the previous year.

Due from Government of Canada

At March 31, 2020, the Government had receivables from the Government of Canada in the amount of \$81.5 million, 97% of which were outstanding claims on cost-sharing agreements and projects delivered on behalf of the federal government. This was an increase of \$23.9 million from the prior year.

Accounts receivable

Accounts receivable increased to \$32.6 million at March 31, 2020 from \$23.1 million at March 31, 2019.

Portfolio investments

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, 2020, the government held \$37.0 million in portfolio investments compared to \$35.8 million in the previous year.

As of March 31, 2020, \$32.9 million of the portfolio investments were specifically designated (\$32.1 million at March 31, 2019) 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).

Advances to Territorial corporations

As of March 31, 2020, the Government has an outstanding balance of \$38.2 million (\$38.2 million at March 31, 2019) on advances made to the Territorial corporations.

Details

Financial Assets continued

Loans receivable

The Government has loans receivable of \$72.7 million, of which \$39.8 million, or 55%, were Yukon Housing Corporation mortgages receivable, followed by \$16.9 million, or 23%, in land sale related loans receivable that are also administered by the Yukon Housing Corporation.

Inventories for resale

Inventories for resale totaled \$77.6 million as of March 31, 2020. This was an increase of \$0.5 million (1%) from the previous year. The inventories largely consist of lots that were developed by the Government for sale to the public.

Retirement benefit assets

Retirement benefit assets totaled \$71.4 million at March 31, 2020 (\$65.9 million at March 31, 2019) and represent the investments held in relation to the Government's obligations for future pension benefits for employees of Yukon College/University and Yukon Hospital Corporation.

Investment in government business enterprises

Investment in government business enterprises, which are self-sustainable government corporations, represent 100% equities of the Yukon Development Corporation ("YDC") and the Yukon Liquor Corporation ("YLC"). YDC had an investment value of \$184.0 million at March 31, 2020 (2019 - \$189.1 million), and YLC had an investment value of \$2.7 million at March 31, 2020 (2019 - \$2.9 million). The Yukon Energy Corporation, which supplies and sells power in the Yukon, is the wholly-owned subsidiary of YDC.

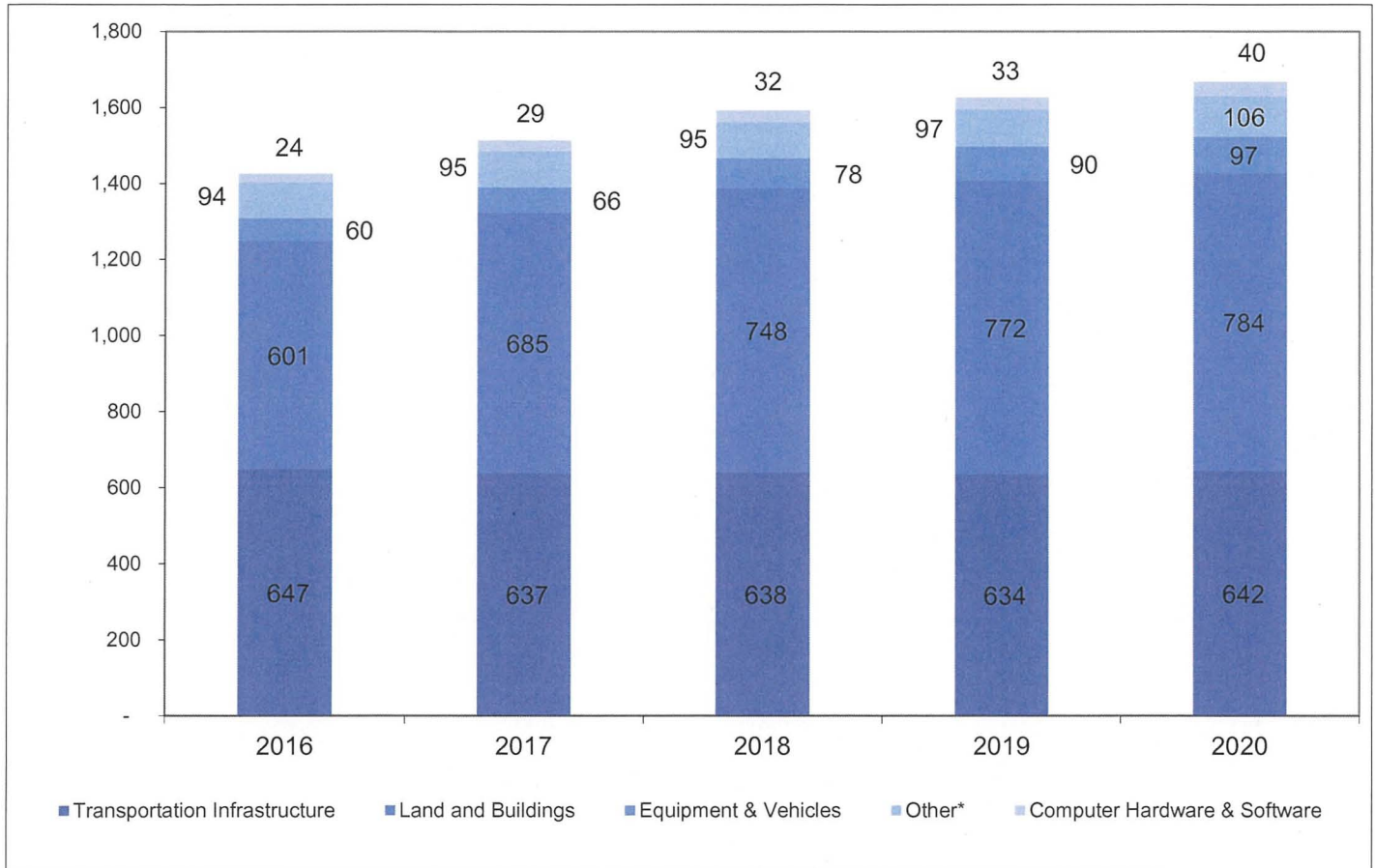
Details

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.

Net Book Value of Tangible Capital Assets

(millions of dollars)



*For additional detail see schedule C

In 2019-20, the Government made the following investment in tangible capital assets:

Opening balance at April 1, 2019	\$	1,626 million
Additions during the year		118 million
Less: Amortization		(76) million
Balance at March 31, 2020	\$	1,668 million

The Government's \$118 million investment was largely spent on buildings, transportation infrastructure and equipment and vehicles.

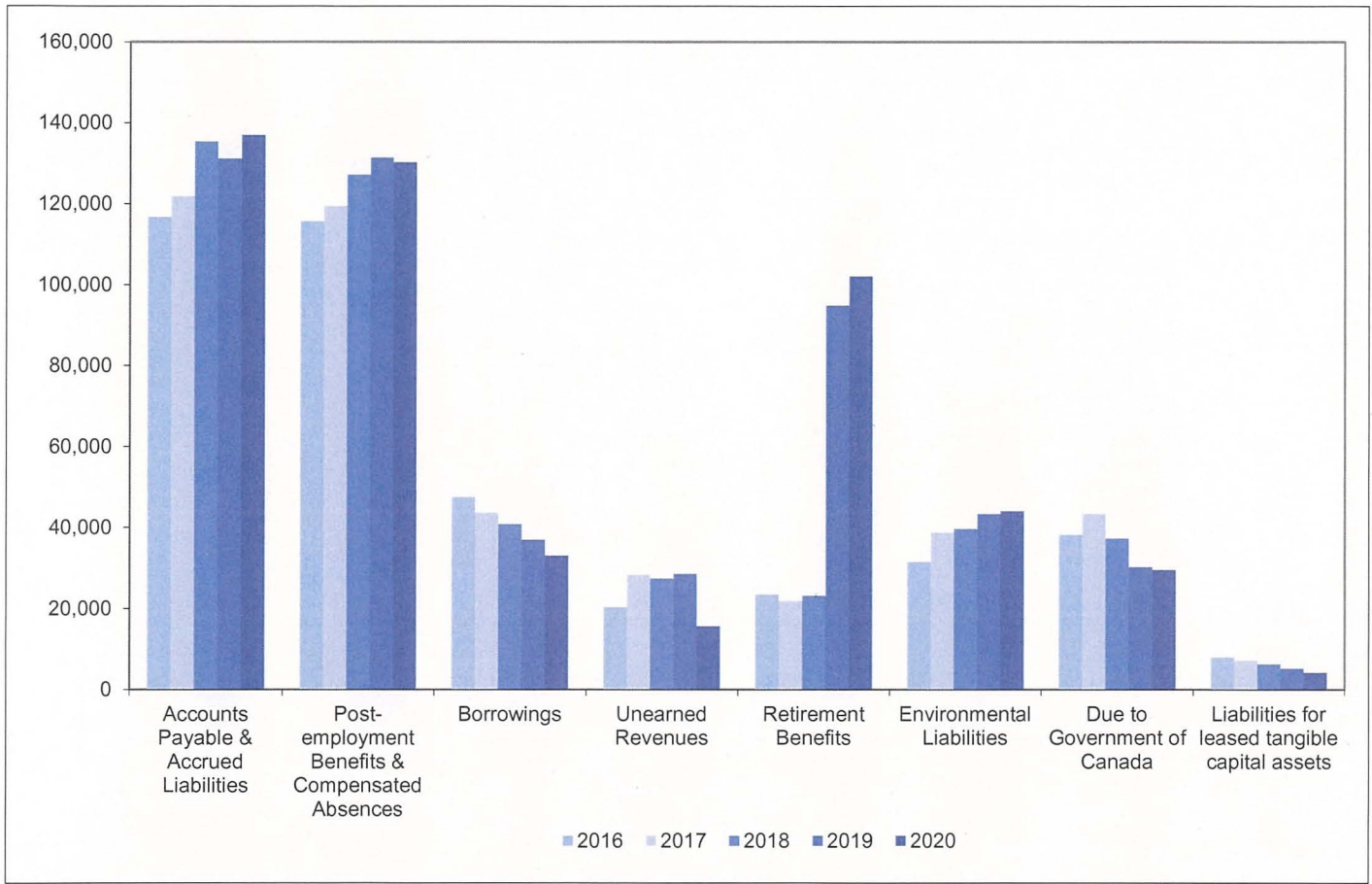
In accordance with the recommendations of the Public Sector Accounting Board of the Chartered Professional Accountants of Canada, the value of transferred Crown land is not reported as a tangible capital asset.

Details

Liabilities

At March 31, 2020, the liabilities of the Government totaled \$495.6 million (\$501.5 million at March 31, 2019), which is equivalent to 74% of the financial assets of the Government. A five-year comparison of the Government's liabilities by category is illustrated below:

Liabilities
(thousands of dollars)



(Note: Prior year amounts are shown as reported in the respective year's Public Accounts. In 2018-19 the Government reclassified its retirement benefit plans to present Retirement benefit assets and Retirement benefit liabilities separately).

Major categories of the Government's liabilities are described as follows:

Due to Government of Canada

Accounts payable to the Government of Canada at March 31, 2020 were \$29.5 million (\$30.2 million at March 31, 2019). 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 2020.

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 \$136.9 million is an increase of 5% from the previous year's total of \$131.1 million.

Details

Liabilities continued

Environmental liabilities

At March 31, 2020, the Government has recorded \$43.9 million (\$43.3 million at March 31, 2019) as a liability for the estimated costs related to the remediation of contaminated sites for which the Government is responsible and can reasonably estimate the value. Of the liabilities, \$10.9 million (25%) is for highway maintenance camps and airports and \$11.9 million (27%) is for landfills that the Government is responsible for maintaining.

Unearned revenues

Unearned revenues of \$15.6 million reported as of March 31, 2020 (\$28.5 million at March 31, 2019) are mostly comprised of funding received from the Government of Canada that has not yet been expended in accordance with funding agreements.

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, 2020 were \$130.2 million (\$131.4 million at March 31, 2019).

Retirement benefits liabilities

Retirement benefits liabilities totaled \$102.1 million at March 31, 2020 (\$94.8 million at March 31, 2019) and represent the Government's various pension plan liabilities and extended health benefit obligations, which are provided to retired employees. Pension plan liabilities are those for the Members of the Yukon Legislative Assembly, and Territorial Court judges.

Borrowings

The largest portion of the \$33.1 million reported as borrowings relates to the Yukon Hospital Corporation's demand term installment loans totaling \$29.8 million (\$33.2 million at March 31, 2019). 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 2019-20 the Yukon Hospital Corporation paid down these loans by \$3.4 million.

Mortgages and loans payable by the Yukon Housing Corporation represent a further \$2.2 million (\$2.7 million at March 31, 2019) of the Government's borrowings.

In Note 17 to the Consolidated Financial Statements, the Government's 'total debt' also includes borrowings of consolidated entities of YDC and YLC as well as capital lease obligations and when taken into account the total debt is \$228.4 million at March 31, 2020 (\$190.5 million at March 31, 2019). The Government of Canada repealed OIC P.C. 2012-280 on September 20, 2020 and issued OIC P.C. 2020-0663 setting Yukon's borrowing limit at \$800 million pursuant to subsection 23(2) of the *Yukon Act* (Canada).

Risks and Mitigations

Government of Yukon's Operating Environment

Government of Yukon's (the Government) financial results are subject to risks and uncertainties that arise from variables over which the Government has no control, or limited control. Some of these risks and uncertainties are:

- Economic factors, including economic growth or decline, commodity prices, private sector investment decisions, inflation, population/demographics, and personal income;
- Revenue changes, especially taxation revenues, or changes in transfers expected from the federal government, causing the total actual revenue results to deviate from the budget estimates;
- Level of utilization of government services, particularly related to health care and social services;
- Unexpected health events, such as sudden or extreme outbreaks of disease;
- Natural disasters, such as wildfires, unusual weather patterns or events, or other events that may impede the safe delivery of goods and services;
- Malicious behaviour (i.e. Cybersecurity attacks) that could interrupt services, lead to loss of information or breach of privacy, and/or damage to equipment or facilities;
- Outcomes of litigation, legal settlements, arbitration and negotiations;
- Identification of environmental liabilities;
- Changes in pension liability due to external factors; and
- Changes in accounting standards.

While Yukon's revenues are mainly stable due to the level of federal transfers, the Government's fiscal health nevertheless relies on revenue from economic activity. As this activity can be volatile in an economy that is significantly tied to mining and exploration activities, the Government takes a cautious and prudent approach to revenue forecasting and fiscal planning. For example, while private sector economic forecasts are used in the Department of Finance economic projections, the Government's fiscal plan is traditionally built on assumptions that are below the private sector forecast. Commodity prices and mining exploration and development plans are closely monitored on a regular basis in order to estimate the impact on fiscal projections. With respect to federal transfers, the Government works closely with the federal government to ensure timeliness of information and fairness in funding levels, including with respect to infrastructure programs that affect the Government's capital planning.

On the expense side, the Department of Finance's Management Board Secretariat closely monitors the spending of Departments and the effect on the fiscal plan so that supplementary estimates can be tabled in the Legislature to address unanticipated spending or savings.

Inaccurate provisions for losses that are likely to occur as a result of obligations such as ongoing litigation and environmental remediation, and that are estimated, expensed and reported as liabilities prematurely or either excessively or insufficiently.

Changes to Canadian accounting principles issued by the Public Sector Accounting Board can have an impact on the Government's Budgets, estimates and actual results. The Office of the Comptroller reviews proposed changes and provides input towards the goal of having standards that reflect sound policy decision-making, transparency and accountability.

Risks and Mitigations

Emerging Issues

COVID-19

The effects of the COVID-19 pandemic on Yukon occurred late enough in the fiscal year to limit the severity of the impact on Yukon finances for 2019-20 but its ongoing global impact will be felt in future periods as the whole world comes to terms with what has been dubbed 'the new normal'. Fortunately, Yukon has not seen a high number of cases and so far has been spared the sorrow of local deaths due to COVID-19. The Government, working closely with public health officials, was quick to establish rules including social distancing and self-isolation that have been critical to Yukon preventing a more severe outbreak of the virus.

With support from the federal government, numerous initiatives have been rolled out to assist individuals, businesses, and industries to deal with the impact of COVID-19. How effective those initiatives will be, is as yet unknown; just as, how long they may need to be maintained is also unknown. Popular belief is that extraordinary measures will continue to be necessary until an effective vaccine is widely available across the globe.

Overall the level of uncertainty has reached significant levels. Going forward, management's assumptions, projections and estimations for forecasting and valuations will require review and re-evaluation. Caution will be required when assessing the impact of market fluctuations to discern those that are simply timing anomalies that will self-correct and those that are true impairments of the underlying assets. The 2020-21 fiscal year reporting will be impacted by the response to COVID-19 both in terms of costs incurred and in terms of difficulties with data collection. The Government continues to investigate methods to mitigate both.

PSAS 3280

The Public Sector Accounting Board (PSAB) planned to implement a new Public Sector Accounting Standard (PSAS) 3280 effective April 1, 2021 that introduces the concept of Asset Retirement Obligations (ARO). Due to COVID-19, PSAB has elected to postpone the implementation of PSAS 3280 to April 1, 2022. The concepts to be introduced in PSAS 3280 are similar to the ARO concepts introduced in private sector standards close to a decade ago. Namely, ARO recognizes that certain tangible capital assets will require costs to be incurred at the time the asset is retired either through sale, disposal or demolition. These concepts are similar to those in PSAS 3270 Landfill Closure and Post-Closure Liabilities; actually, so similar that PSAS 3270 will be archived when PSAS 3280 is implemented. PSAS 3280 will apply to all tangible capital assets owned or controlled by the Government