

PART ONE

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

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GOVERNMENT OF YUKON
Consolidated Financial Statement Discussion and Analysis
for the year ended March 31, 2023

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 further explain information contained in the Consolidated Financial Statements, which are presented in Part Two of the Yukon Public Accounts. This is intended to assist readers in their analysis of the Yukon's fiscal health. To do this effectively, this report presents a highlights summary, assessment of fiscal health, indicators of financial and economic conditions, details section, and a summary of risks and mitigation. The Yukon Public Accounts, produced annually, provides clarity and transparency for Yukoners by comparing the financial results for the 2022–23 fiscal year against the 2022-23 Main Estimates (Budget) and against the previous year's financial results as restated per the adoption of several new accounting standards. The Government is responsible for the accuracy, objectivity, and integrity of this information.

During 2022-23 several new public sector accounting standards were adopted which have had significant impact on the calculation and presentation of these financial statements. Most prominent was PS 3280 Asset Retirement Obligation which introduced a new estimated liability with offsetting increase in related tangible capital assets and decrease in accumulated operating surplus. Another standard PS 3041 Portfolio Investments has introduced the requirement to report certain investments at their fair value. Meanwhile, PS 1201 Financial Statement Presentation and PS 3450 Financial Instruments have led to the introduction of a new statement (Statement of Remeasurement Gains and (Losses)) and numerous new disclosure requirements around the risks related to financial instruments. Specific details can be found in the Notes to the Consolidated Financial Statements in Note 2 Significant accounting policies, Note 3 Adoption of accounting standards, Note 15 Asset retirement obligation liabilities and Note 28 Risk management of financial instruments.

2022-23 Highlight Summary

| Financial Results | | | | | |
|-----------------------------|---------------|------------------|--------------------|---------------|-------------------------|
| (thousands of dollars) | 2023 | | 2022 Restated | Change from | |
| | Budget | Actual | (Note 3) Actual | Budget | 2022 Restated Actual |
| Revenues | 1,841,996 | 1,910,077 | 1,767,827 | 68,081 | 142,250 |
| Expenses ¹ | 1,774,997 | 1,787,214 | 1,715,209 | 12,217 | 72,005 |
| Surplus / (Deficit) | 66,999 | 122,863 | 52,618 | 55,864 | 70,245 |
| Accumulated Surplus | | 2,029,392 | 1,904,666 | | 124,726 |
| Net Financial Assets | | 10,743 | 98,881 | | (88,138) |

¹ Expenses shown net of Recovery of Prior Years' Expenses

The Government is reporting an annual surplus of \$122.9 million on a revenue base of approximately \$1.9 billion.

The \$55.9 million difference between the \$122.9 million surplus and the expected \$67 million surplus presented in the 2022-23 budget is due to higher revenues (\$68.1 million, or 3.7%), offset by higher than anticipated expenses (\$12.2 million, or 0.7%).

Revenues were higher than budgeted largely due to higher than expected transfers from the Government of Canada and higher tax revenue; while funding and service level agreements with other parties and sale of land resulted in less revenue than expected.

Expenses were higher than budgeted, and the functions with the largest increases compared to the 2022-23 budget were general government, health and social services, and natural resources.

The surplus of \$122.9 million is \$70.2 million higher than the \$52.6 million restated surplus in 2021-22. Total revenues compared to the previous year as restated increased by \$142.3 million (8.1%), while total expenses increased by \$72.0 million (4.2%).

The increases in revenue were driven by a \$130.1 million increase in funding from the Government of Canada while just over half (54.9%) of the year-over-year increase in expenses was in the health and social services function.

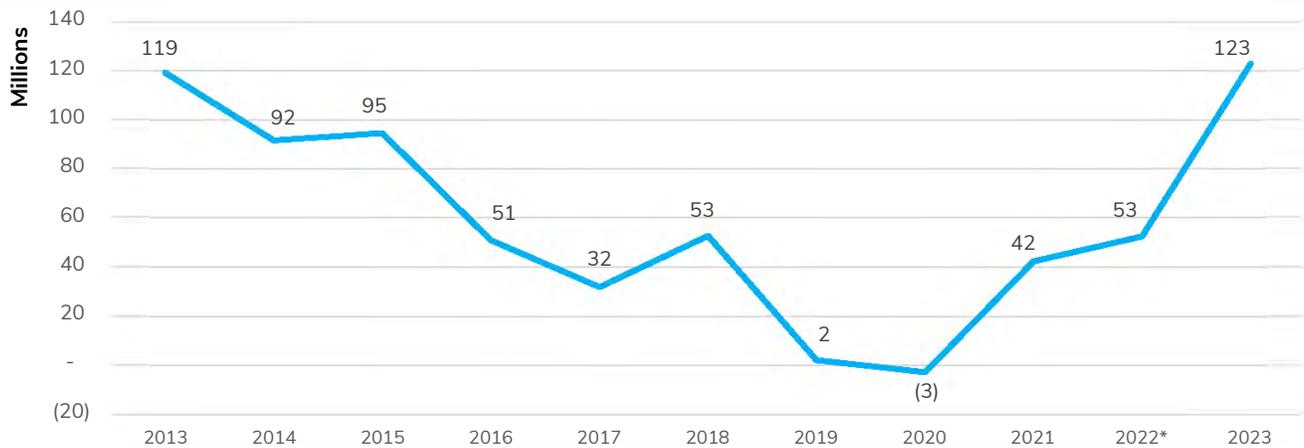
The Government continues to be in a net financial asset position although net financial assets decreased during 2022-23 to a balance of \$10.7 million at March 31, 2023 (\$98.9 million as restated at March 31, 2022).

Highlights

Surplus (Deficit)

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

Surplus (Deficit)

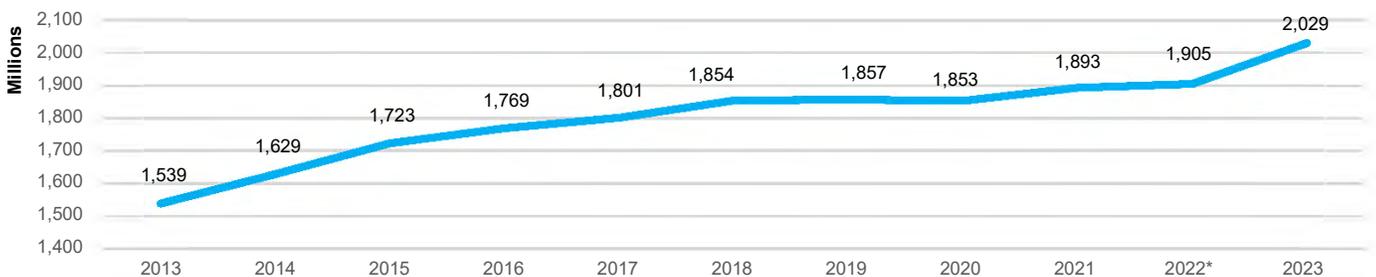


* 2022 restated due to adoption of PS 3280

The surplus of \$122.9 million for the year was \$70.2 million higher than the previous year's restated surplus of \$52.6 million, and \$55.9 million higher than the budgeted surplus of \$67.0 million. A surplus is driven by two factors - revenues and expenses. The Government's revenue is largely made up of the formula financing grant from the Government of Canada and tends to be stable over time. Expenses are a result of direct government spending and transfers to service territorial needs. Compared to 2021-22, the current year increase in surplus is largely due to increased revenues in the form of transfers from the Government of Canada offset to a degree by increased expenses, particularly in the health and social services and general government functions.

Accumulated Surplus

An accumulated surplus represents the government's reported net economic resources. An accumulated surplus is the net of all past surpluses and deficits and is a measure of economic resources to provide future services.



* 2022 restated due to adoption of PS 3280

As of March 31, 2023, the Government is reporting an accumulated surplus of \$2.029 billion which is an increase of \$124.7 million from the previous year's restated accumulated surplus of \$1.905 billion. The increase in accumulated surplus during 2022-23 is due to the current year's annual operating surplus of \$122.9 million, plus the net remeasurement gain of \$1.0 million and the \$0.8 million adjustment on adoption of PS 3041 Portfolio investments (Note 3(b)).

Highlights

The Accumulated Surplus consists of net financial assets and non-financial assets. Net financial assets are the Government's financial assets less liabilities as per the Statement of Financial Position. Non-financial assets are predominately tangible capital assets.

Net Financial Assets

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



* 2022 restated due to adoption of PS 3280

The net financial assets of the Government is calculated as:

- The financial assets consisting of cash and cash equivalents, portfolio investments, due from Government of Canada, accounts receivable, advances to government business enterprises, loans receivable, inventories for resale, retirement benefit assets, and investment in government business enterprises; offset by
- The liabilities consisting of due to Government of Canada, accounts payable and accrued liabilities, unearned revenues, environmental liabilities, asset retirement obligation liabilities, post-employment benefits and compensated absences, retirement benefit liabilities, borrowings, and liabilities for leased tangible capital assets.

The net financial assets originally reported as of March 31, 2022 was \$163.5 million but due to the impact of the retroactive adoption of PS 3280 Asset retirement obligations of \$64.6 million, it is restated as \$98.9 million. The year-over-year decrease of \$88.1 million in 2022-23 is primarily a result of the increase in liabilities driven by accounts payable and accrued liabilities and unearned revenues outstripping the modest net increase in financial assets.

The table below provides more information on the financial assets, liabilities, and the resulting net financial assets for each year in the chart above.

| (Thousands) | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022* | 2023 |
|-----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Financial Assets | 646,624 | 711,245 | 780,119 | 731,248 | 698,324 | 684,562 | 720,000 | 667,475 | 749,698 | 828,914 | 836,603 |
| Liabilities | 365,512 | 365,556 | 391,031 | 401,239 | 424,272 | 436,931 | 501,550 | 495,587 | 566,953 | 730,033 | 825,860 |
| Net Financial Assets | 281,112 | 345,689 | 389,088 | 330,009 | 274,052 | 247,631 | 218,450 | 171,888 | 182,745 | 98,881 | 10,743 |

* 2022 restated due to adoption of PSAS 3280

Highlights

Investment in Tangible Capital Assets

The Government invests in government owned capital, also known as tangible capital assets.

The Government's total annual capital spending consists of investments in tangible capital assets and the amounts the Government transfers to third parties (i.e., municipalities, First Nations) for capital purposes.

Investment in Tangible Capital Assets



In 2022-23, the Government recorded tangible capital asset additions of \$291.1 million for the acquisition and development of assets such as buildings and transportation infrastructure, IT assets, equipment and vehicles, compared to \$160.4 million in 2021-22.

Expenditures in 2022-23 on multi-year capital projects included: \$41.7 million on the Whitehorse Airport Runway project, \$20.3 million on the Whistle Bend School project, \$33.2 million on the Dempster Fibre project, \$19.7 million on the Carmacks Bypass project, \$12.4 million on the Old Crow 10 Plex, \$11.7 million on the Old Crow Health Centre, and \$3.5 million on modular trailers at Robert Service School.

Also in 2022-23, the Government's construction work on various road and highways cost over \$39.5 million, while bridge work on the Alaska, Klondike, and Robert Campbell highways cost in excess of \$71.4 million, including \$49.6 million for the Nisutlin Bay Bridge.

Assessment of Fiscal Health

Caution to Reader

Yukon estimated GDP growth rates can experience substantial revisions as additional economic data becomes available. Statistical revisions are carried out regularly in the Canadian System of Macroeconomic Accounts (CSMA) in order to incorporate the most current information from censuses, annual surveys, administrative statistics, public accounts, etc. The most recent benchmark year for which the input-output structure of Yukon's economy is measured is 2019 and therefore it is the most current year for which the contributions of different industries to GDP may be accurately measured. GDP calculations for subsequent years are projections based on the structure of Yukon's economy in 2019 and changes in prices and output volumes in intervening years. Substantial revisions to these estimates can occur if there are major changes to the structure of the economy; for example, the opening or closing of a large mine after the most recent input/output accounts reference year.

StatsCan table 36-10-0222-01 released November 8, 2022 updated GDP history for all jurisdictions from 2011 to 2021; the tables that follow have incorporated these updated figures for Yukon.

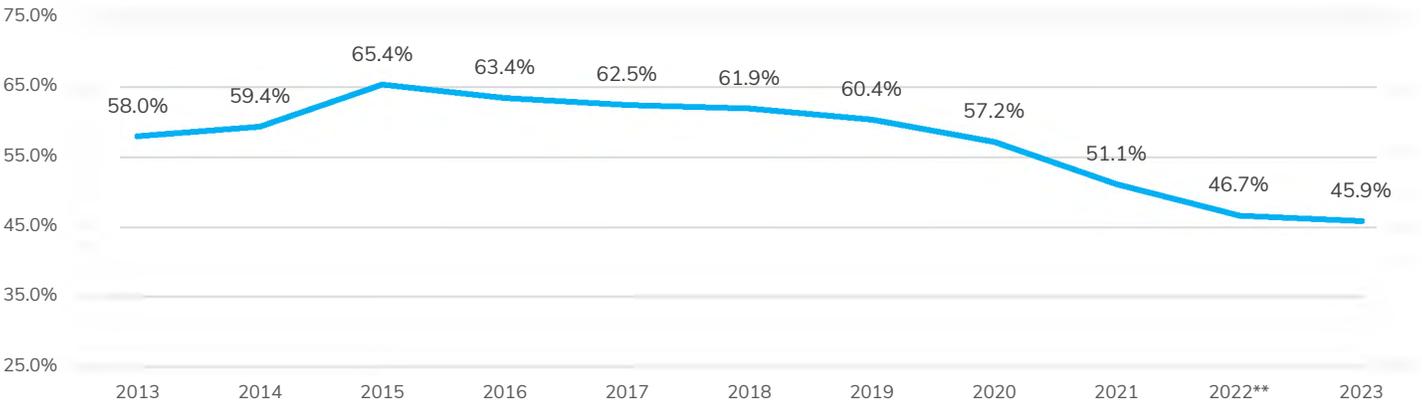
Assessment of Fiscal Health

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 Nominal GDP*

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



* Forecasted Nominal GDP: 2022-\$4,078 million; 2023-\$4,420 million

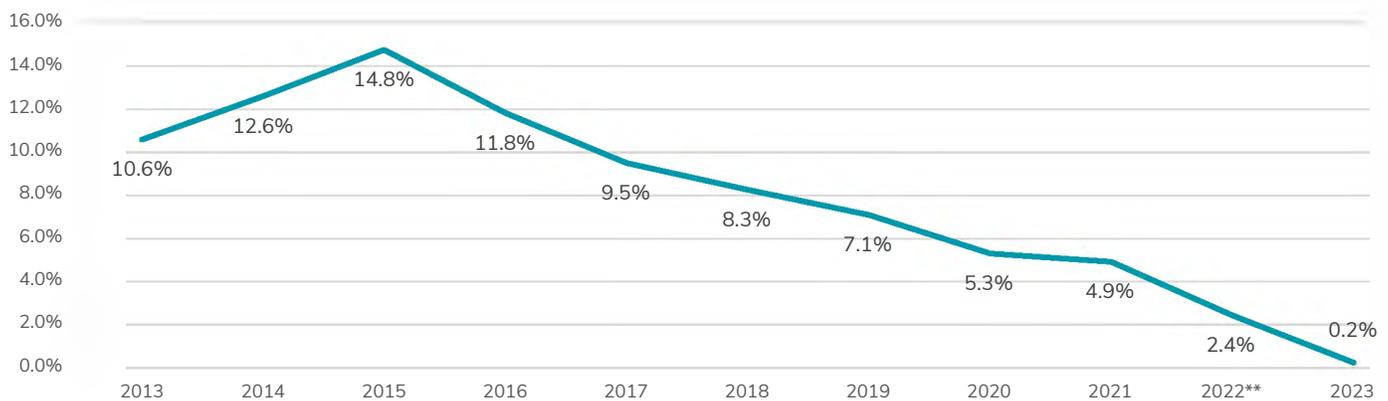
** 2022 restated due to adoption of PS 3280

The accumulated surplus measures the sum of all current and prior years' operating results and remeasurement gains and (losses). Gross Domestic Product (GDP) is a measure of the value of the goods and services produced during a year and is a commonly used measure of the size of the Territory's economy. The trend of this ratio provides an indication of whether the accumulated surplus is growing faster or slower than the economy.

This trend highlights that the accumulated surplus, while still growing as illustrated previously, is declining in relation to the Territory's GDP. This would indicate that the economy is growing faster than the Government's accumulated surplus.

Net Financial Assets to the Territory's Nominal GDP*

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



* Forecasted Nominal GDP: 2022-\$4,078 million; 2023-\$4,420 million

** 2022 restated due to adoption of PS 3280

The net financial assets 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.

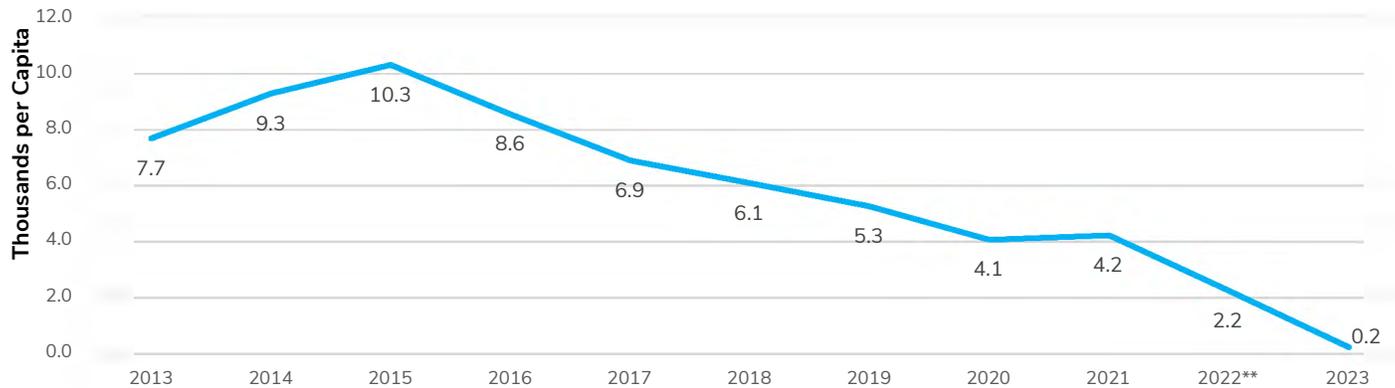
The downward trend implies that the Government continues to consume its resources and that the GDP continues to grow. Should the ratio go negative (as it has in the majority of Canadian jurisdictions) the meaning of the indicator will change and it will become a measure of the portion of the GDP that would be required to return the Government to a positive net financial asset position.

Assessment of Fiscal Health

Sustainability (continued)

Net Financial Assets per Capita*

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



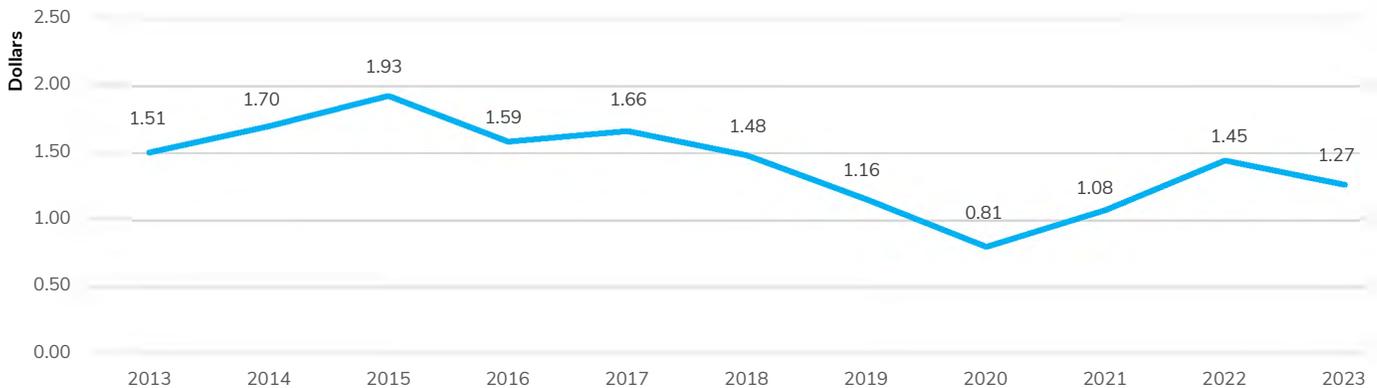
* Forecast 2023 population

** 2022 restated due to adoption of PS 3280

The downward trend of the ratio indicates that the Government's net financial assets available per capita is decreasing as the population continues to grow (as per the chart depicted later).

Liquidity Ratio - Current Assets to Borrowing Limit Total Debt

In this graph, current assets consist of cash and cash equivalents, due from Government of Canada and accounts receivable. The borrowing limit total debt is as defined in Note 19 to the Consolidated Financial Statements using the Yukon Borrowing Limits Regulations which includes debt of all entities of the government.



Liquidity ratio is intended to show the Government's ability to meet its financial obligations. A higher ratio is desirable as it shows that the Government has sufficient financial resources to discharge its long-term obligations without having to use further financing. The 2022-23 ratio indicates that the Government had \$1.27 in current assets for each \$1.00 of total debt.

On March 31, 2023, as per Note 19 to the Consolidated Financial Statements; the government has total debt of \$233.5 million (2022 - \$216.4 million) which is 29.2% (2022 - 27.0%) of the limit allowed.

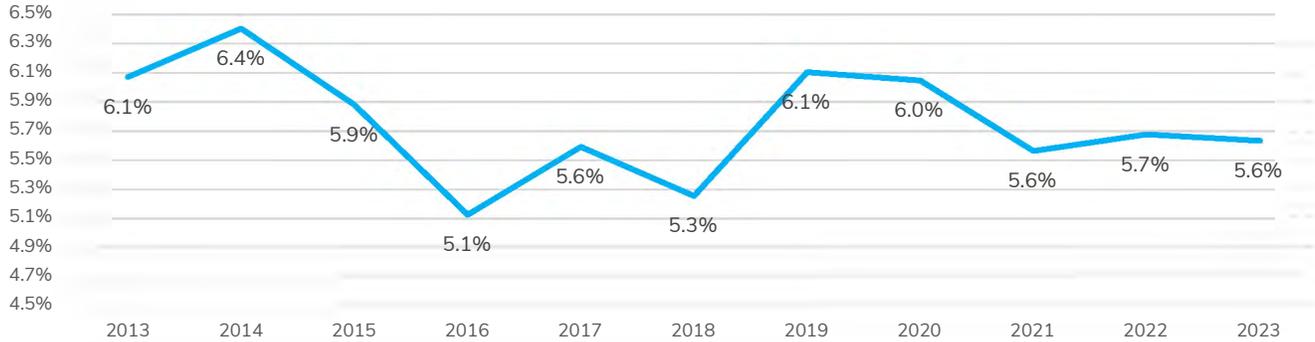
Assessment of Fiscal Health

Flexibility

Flexibility is a measure indicating the room that the Government has to maintain its services by increasing its demands on the economy through changes to fees or taxes.

Own-Source Revenue to the Territory's Nominal GDP*

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



* Forecasted Nominal GDP: 2022-\$4,078 million; 2023-\$4,420 million

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. The ratio 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

In this graph, transfers from the Government of Canada include the formula financing grant, other grants such as Canada health, Canada social and cannabis transfers and contributions and service agreements with the Government of Canada.



In 2022-23, the Government again received 84% of its revenue from the Government of Canada which was within the range of 81% to 85% that has occurred over the past decade. This ratio is consistently high, indicating a reliance on the federal government to finance the Government's activities. While the Government has little control over these transfers which poses a risk, it also represents a relatively stable source of revenue from the Government of Canada, a senior level of government.

Indicators of Financial and Economic Conditions

Credit Ratings - July 2023*

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

*Ratings reflect the latest credit ratings as per Government of Nova Scotia Public Accounts 2022-23

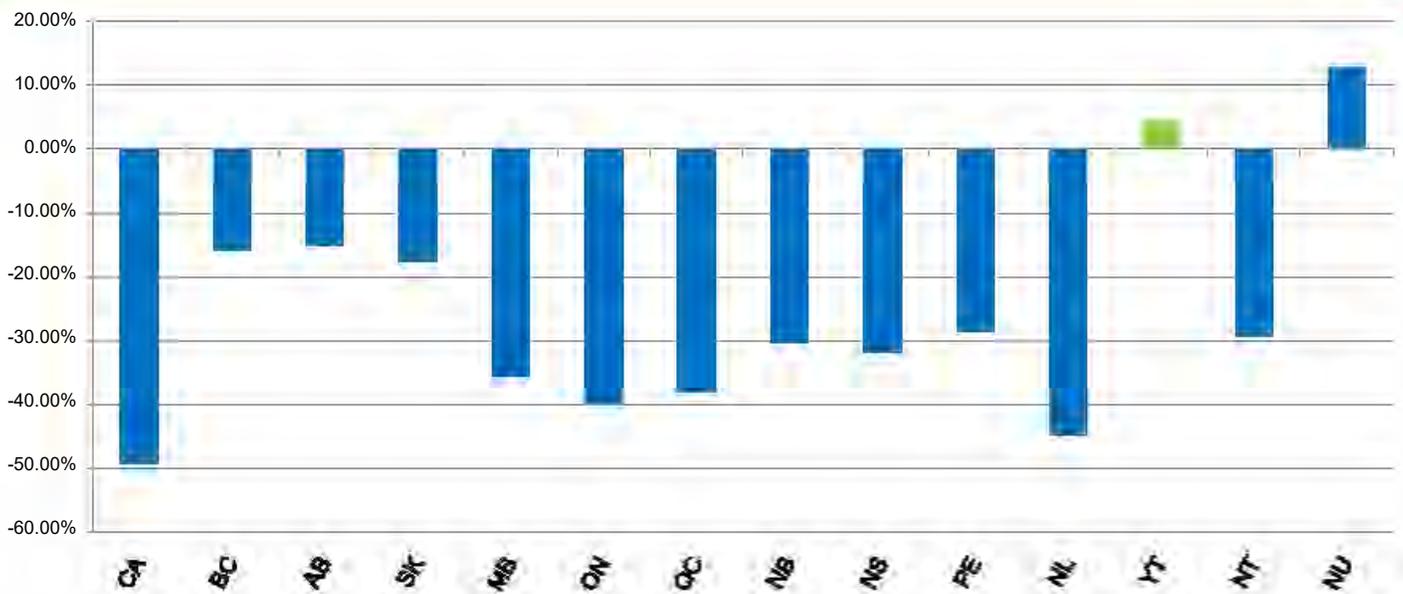
On July 25, 2023, S&P Global Ratings affirmed its 'AA' long-term issue credit rating of Yukon Territory. In its summary, the rating agency states that "an extremely predictable and supportive institutional framework, along with strong direct support from the federal government, continues to underpin Yukon's credit profile." The Rating agency highlighted that the "economy remains tied to mining sector, but rebounding tourism should provide a lift" and also stated "revised capital plan reins in spending, improving after-capital balances."

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 financial assets (net debt) to GDP ratio. Yukon and Nunavut are the only jurisdictions that have a positive ratio. A positive ratio indicates net financial resources available to finance future operations and obligations. A negative ratio indicates that the government must rely on future revenues to discharge existing liabilities.

NOTE: Updated information was not available at time of publication so 2021 data is repeated.

Federal / Provincial / territorial Governments Net Financial Assets (Debt) to GDP Ratio for Calendar Year 2021



Statistics Canada. Table 36-10-0222-01 Gross domestic product, expenditure-based, provincial and territorial, annual (x 1,000,000)

<https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3610022201>

Indicators of Financial and Economic Conditions

Population and Unemployment rate (Calendar Year)

Yukon's population has posted annual gains averaging 2% over 19 consecutive years. In 2023, total population is forecast to reach 44,900.

Yukon's unemployment rate (UR) averaged 4.5% in 2022 which was below the national average of 5.3%; both of which reflected almost a full recovery from the impact of COVID-19 despite the high inflation concerns. As noted in the chart below, since 2013, 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.

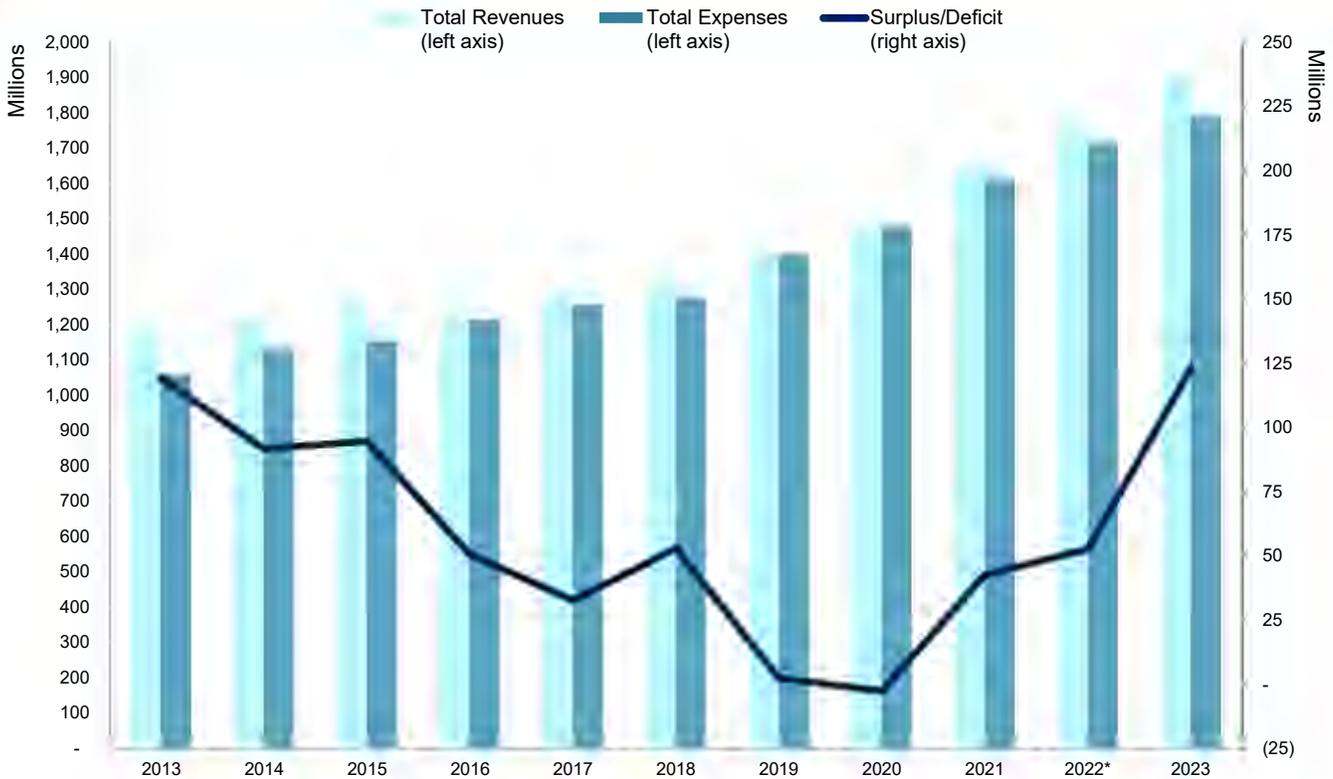
The surplus of \$122.9 million for the year was an increase of \$70.2 million from the previous year's restated surplus of \$52.6 million and \$55.9 million higher than the budgeted surplus of \$67.0 million. Revenues increased by \$142.3 million from the previous year's actual and were \$68.1 million higher than budgeted. Expenses (net of prior years' expense recoveries) of \$1.787 billion for the year were higher than the initially budgeted amount of \$1.775 billion.

Major revenue variances between the current and prior year include a \$95.9 million (44.0%) increase in contributions and service agreements revenues from the Government of Canada, a \$56.5 million (5.1%) increase in the formula financing grant and \$20.5 million (15.8%) increase in income tax revenues. These were offset somewhat by less revenue in the following areas: other grants from the Government of Canada decreased \$22.3 million (15.4%) and income from investments in government business enterprises decreased by \$8.4 million (34.7%) from the previous year.

Expenses increased year-over-year by \$72.0 million (4.2%) with expenditures for health and social services contributing \$39.7 million (54.9%) of the increase. General government and community and transportation also had significant increases compared to prior year expenditures.

The chart below illustrates the trend between revenues and expenses over the last decade.

Revenues and expenses



* 2022 restated due to adoption of PS 3280

Details

Carbon Price Rebate Program

The Parliament of Canada passed the *Greenhouse Gas Pollution Pricing Act* (Canada) in 2018. In response to this, the Yukon Legislature passed the *Yukon Government Carbon Price Rebate Act* (Yukon), which outlines how the government will rebate all amounts received from the Government of Canada for greenhouse gas pollution pricing. The intent of this Act is to ensure that all carbon levy funds received are treated as pass-through funding to Yukoners with no funds being retained by the Government and there being no impact on its surplus (deficit).

The *Yukon Government Carbon Price Rebate Act* (Yukon) created a restricted fund. The purposes of the Carbon Price Rebate Revolving Fund are the payment or crediting, on a revenue neutral basis and in accordance with this Act and the *Income Tax Act*, of amounts, on account of certain amounts that the Government receives from the Government of Canada under the federal Act. During fiscal 2019-20, the first amounts were received from the Government of Canada and shortly thereafter rebates began to be distributed. There were originally four main eligible groups: businesses, individuals, municipal governments, and Yukon First Nation governments until 2022-23 when a fifth was added, mining businesses.

The following is a summary of each year's activity and the status of the revolving fund as of March 31, 2023.

Revolving Fund Balance

(thousands of dollars)

| | Cumulative to | | | | |
|--|-----------------------|-------------------|-------------------|-------------------|-------------------|
| | March 31, 2023 | 2022-23 | 2021-22 | 2020-21 | 2019-20 |
| Opening Liability | - | 18,885 | 6,919 | 2,783 | - |
| Carbon amounts received from the Government of Canada | | | | | |
| Business Allocation | 31,587 | 11,687 | 11,470 | 6,210 | 2,220 |
| Mining Business Allocation | 747 | 747 | - | - | - |
| Individuals Allocation | 28,948 | 11,389 | 10,121 | 5,479 | 1,959 |
| Municipal Governments Allocation | 1,961 | 790 | 675 | 365 | 131 |
| First Nations Governments Allocation | 1,085 | 695 | 224 | 122 | 44 |
| Subtotals | <u>64,328</u> | <u>25,308</u> | <u>22,490</u> | <u>12,176</u> | <u>4,354</u> |
| Rebates distributed to eligible groups | | | | | |
| Business | 11,069 | 6,968 | 3,003 | 980 | 118 |
| Mining Business Allocation | - | - | - | - | - |
| Individuals | 26,058 | 10,910 | 6,932 | 6,807 | 1,409 |
| Municipal Governments | 1,171 | 675 | 365 | 131 | - |
| First Nations Governments | 1,085 | 695 | 224 | 122 | 44 |
| Subtotals | <u>39,383</u> | <u>19,248</u> | <u>10,524</u> | <u>8,040</u> | <u>1,571</u> |
| Closing Liability | <u>24,945</u> | <u>24,945</u> | <u>18,885</u> | <u>6,919</u> | <u>2,783</u> |
| Liability by eligible group | | | | | |
| Business Allocation | 20,518 * | 4,719 | 8,467 | 5,230 | 2,102 |
| Mining Business Allocation | 747 ** | 747 | - | - | - |
| Individuals Allocation | 2,890 | 479 | 3,189 | (1,328) | 550 |
| Municipal Governments Allocation | 790 | 115 | 310 | 234 | 131 |
| First Nations Governments Allocation | - | - | - | - | - |
| Annual Net Activity | <u> </u> | <u>6,060</u> | <u>11,966</u> | <u>4,136</u> | <u>2,783</u> |
| Total Liability | <u>24,945</u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

* Fiscal Policy estimates \$18,719,260 of this amount has been claimed but has not been confirmed by CRA.

** Fiscal Policy estimates \$144,060 of this amount has been claimed but has not been confirmed by CRA.

Details

Impact of COVID-19

The impact of the COVID-19 pandemic was most severe during fiscal 2020-21 and while diminished in fiscal 2021-22, it was still significant, as the Government continued to provide several programs aimed at supporting individuals, businesses, and the economy in general. Some of these programs were ongoing in 2022-23 and will become permanent components of future budgets.

Revenues

In 2022-23, the Government's total revenues increased compared to the previous year by \$142.3 million (8.0%) to \$1.910 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 2022-23, the Government received \$1,174.1 million from the formula financing grant, an increase of \$56.5 million (5.1%) from the previous year. The Canada Health Transfer was \$53.4 million, and the Canada Social Transfer was \$18.0 million. These transfers increased from the previous year by a total of \$5.5 million (8.4%). The Government received \$25.3 million of carbon levies, \$15.0 million for affordable housing in the North and \$7.0 from Public Safety Canada.

In addition, 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 \$95.9 million (44.0%).

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 \$17.5 million (7.6%) to \$249.0 million. This was largely due to a \$20.5 million increase in income taxes and a \$3.9 million increase in investment and interest revenue offset by a \$7.7 million decrease in resource revenue.

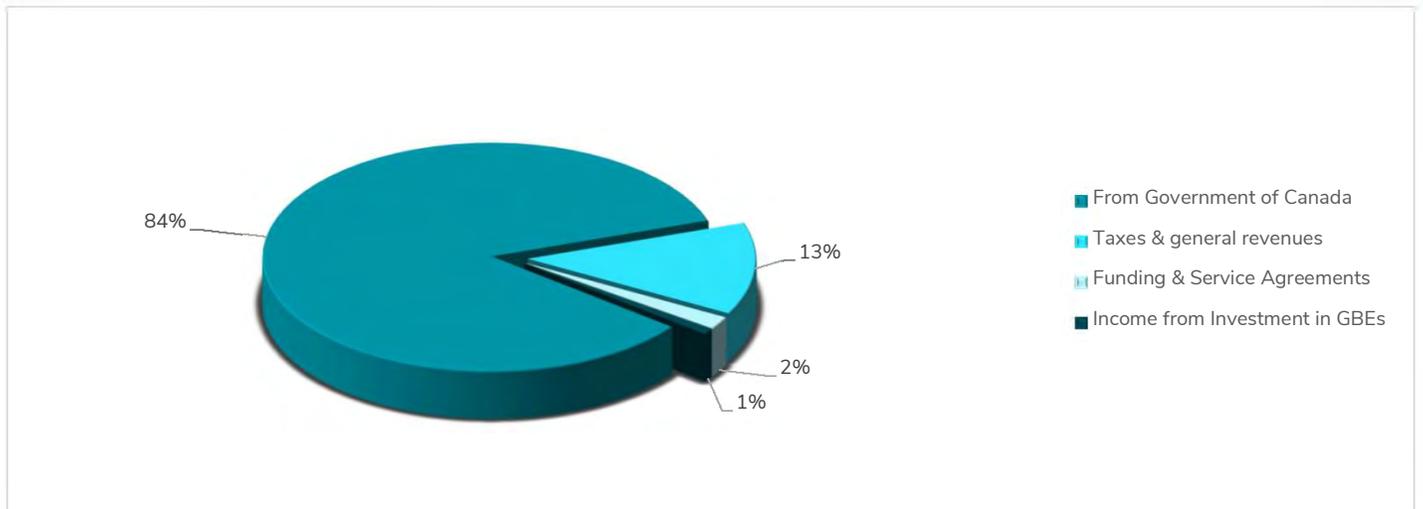
Funding and service agreements with other parties increased from the previous year by \$3.0 million (9.6%) to \$34.4 million.

The income from investment in government business enterprises reported as revenue in the consolidated financial statements represents the surpluses of government corporations that are categorized as government business enterprises ("GBE"). GBEs include the Yukon Liquor Corporation ("YLC") and the Yukon Development Corporation ("YDC"), which includes the Yukon Energy Corporation in its results. Income from YLC was \$7.7 million while the income from YDC was \$8.1 million.

Revenues were higher than budgeted by \$68.1 million. This was primarily due to higher revenues from the Government of Canada and taxes and general revenues, offset by lower revenues from sale of land, resource revenue, funding and service agreements with other parties and income from investment in GBEs.

In 2022-23, the composition between different types of revenue remained consistent with previous years.

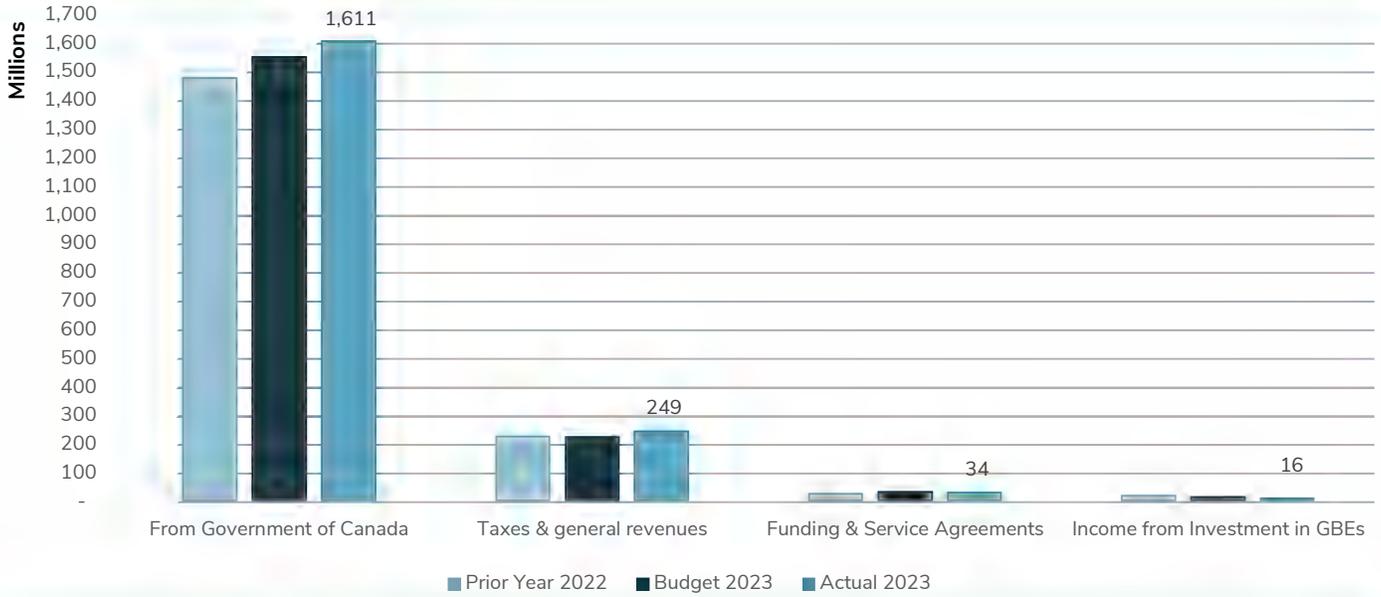
Revenue by source percentages



Details

Revenues continued

Revenue by source - comparison to budget and prior year



Revenue by source five year trend comparison



Details

Expenses

In 2022-23, the Government's expenses increased compared to the restated previous year by \$72.0 million (4.2%) to \$1.787 billion.

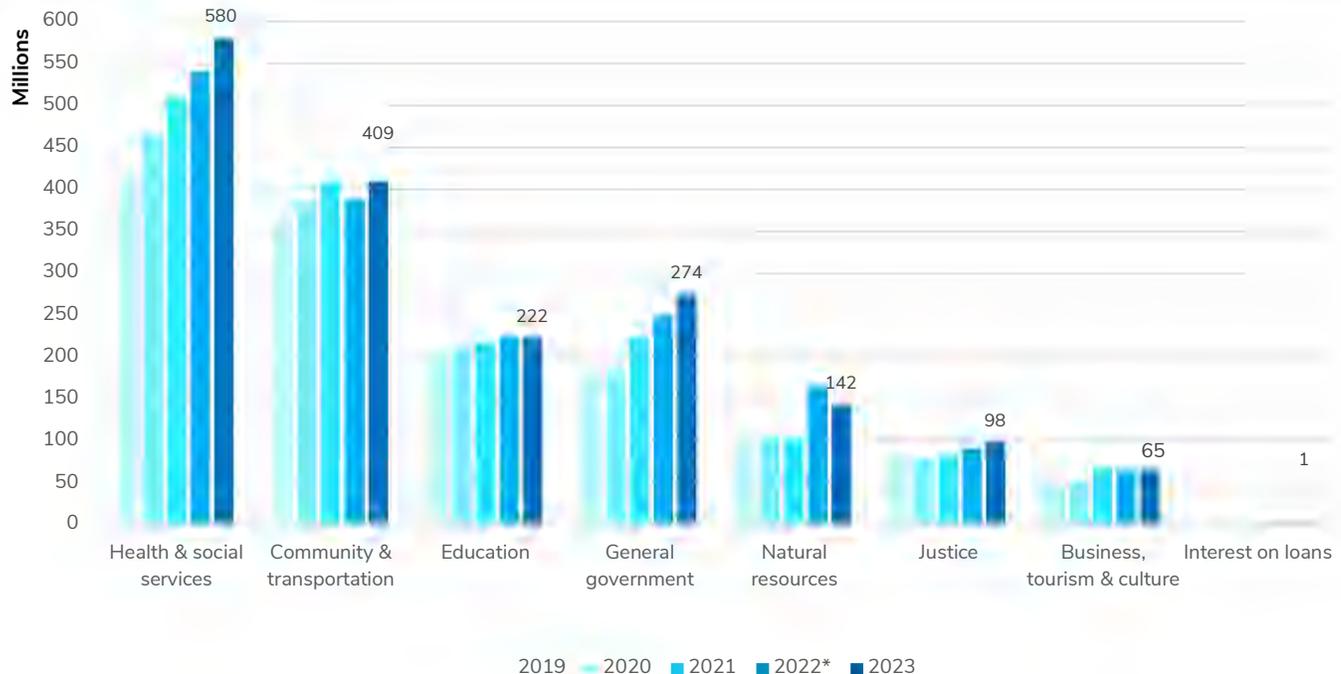
Expenses by function comparison



Five functions had 2022-23 expenses that exceeded the previous year's restated expenses while three had decreases. The largest increase was in the health and social services function, with an increase of \$39.7 million (7.3%), followed by a \$26.3 million (10.6%) increase in general government, a \$22.9 million (5.9%) increase in community and transportation, a \$7.6 million (8.4%) increase in justice and a \$1.0 million (1.6%) increase in business, tourism and culture. Natural resources decreased by \$22.8 million (13.8%) while education decreased \$2.5 million (1.1%) and interest on loans decreased \$0.1 million (7.2%).

Expenses by function five year trend comparison

(thousands of dollars)

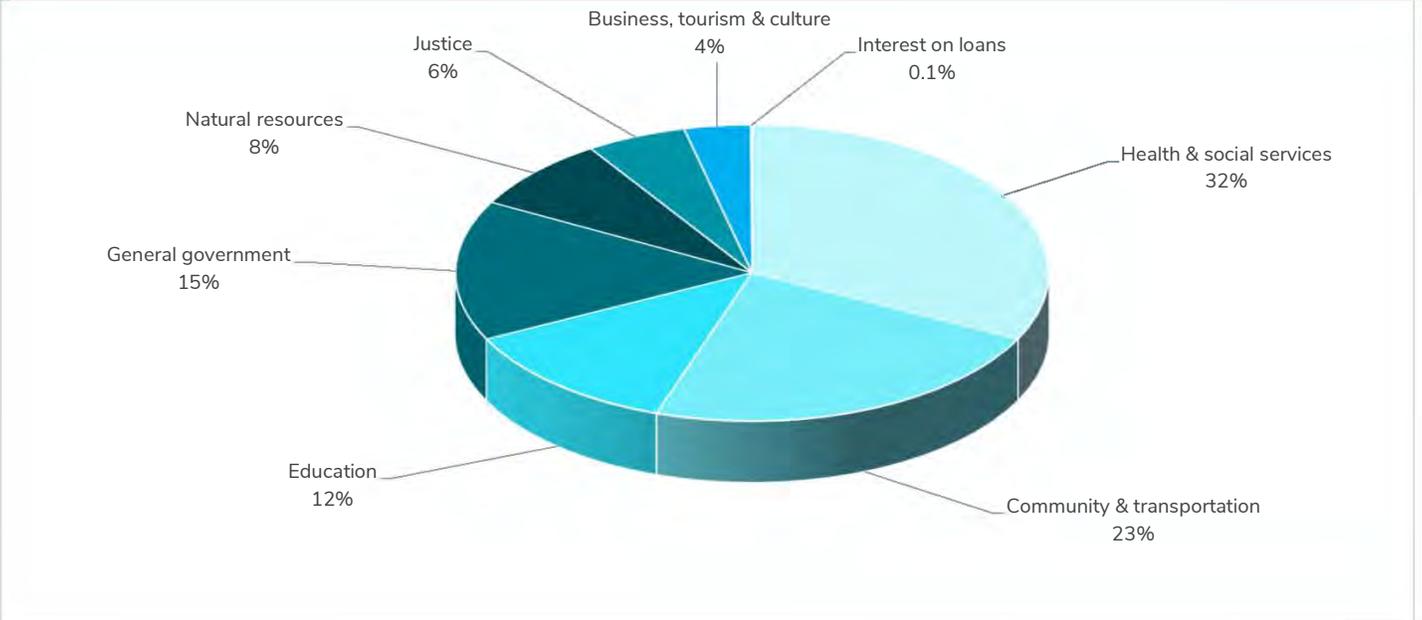


* 2022 restated due to adoption of PS 3280

Details

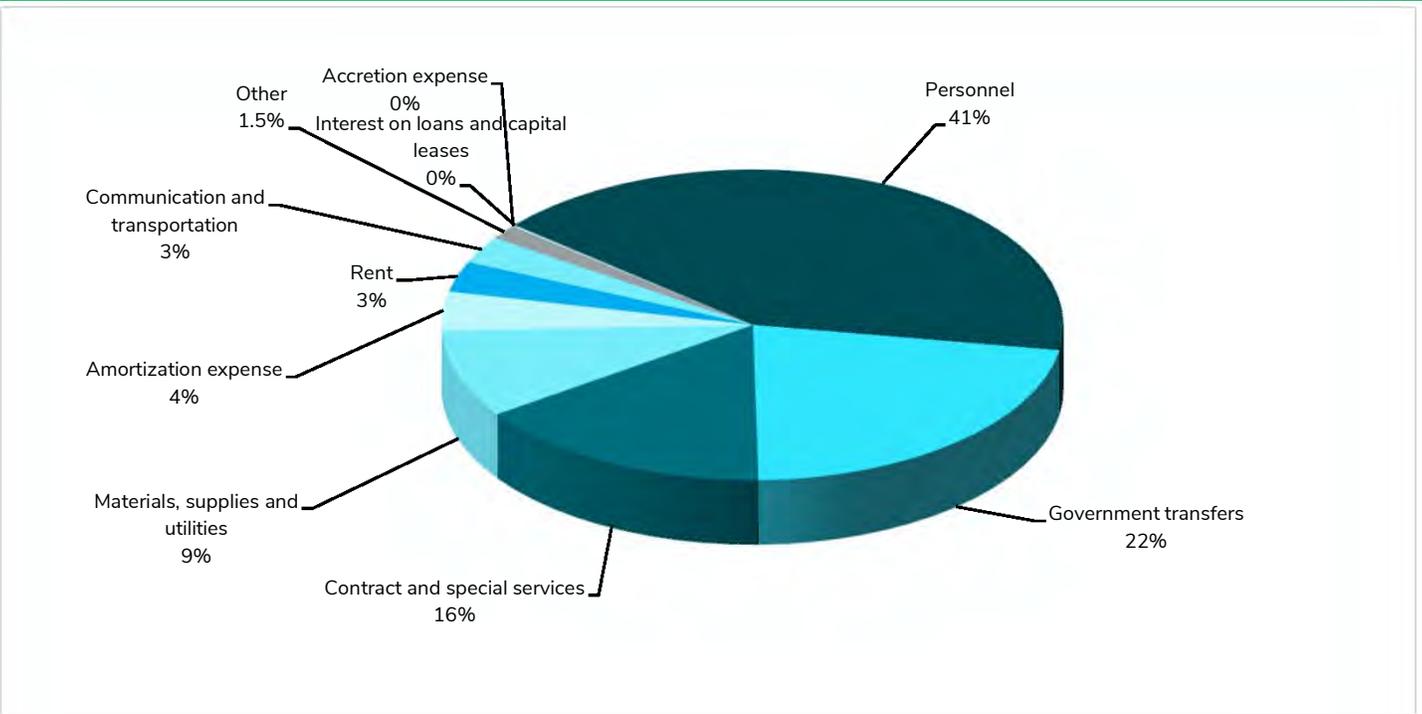
Expenses continued

Expense by function percentages



In 2022-23, the composition of expenses by function remained similar with the previous year, with health and social services and community and transportation representing the largest areas of spending and general government and education representing the next highest level of spending while natural resources, justice and business, tourism and culture retain their positions in the lower areas of expenses. Interest on loans remains at a nominal value.

Expenses by object percentages



As for the type of expenses (as detailed in Note 22 to the Consolidated Financial Statements), the highest increases from the 2021-22 restated expenses were \$40.4 million (11.2%) for government transfer payments, followed by \$26.6 million (3.7%) for personnel costs, \$8.6 million (5.7%) for materials, supplies and utilities, and \$9.6 million (23.6%) for communication and transportation. Decreases were led by contract and special services by \$20.2 million (6.8%) and amortization expense by \$6.7 million (8.4%). The new accretion expense related to the estimated asset retirement obligations had a nominal value of \$1.9 million (2022 - \$1.8 million).

Details

Net Financial Assets and Accumulated Surplus

Adoption of PS 3280 Asset retirement obligations impacted the Government's net financial assets and accumulated surplus as at April 1, 2021 due to modified retroactive implementation (See Note 3(a) to the Consolidated Financial Statements for details).

At March 31, 2023, the Government's financial assets exceeded its liabilities, resulting in net financial assets of \$10.7 million (\$98.9 million restated at March 31, 2022). This important indicator shows that the Government has minimal financial assets on hand to finance future operations.

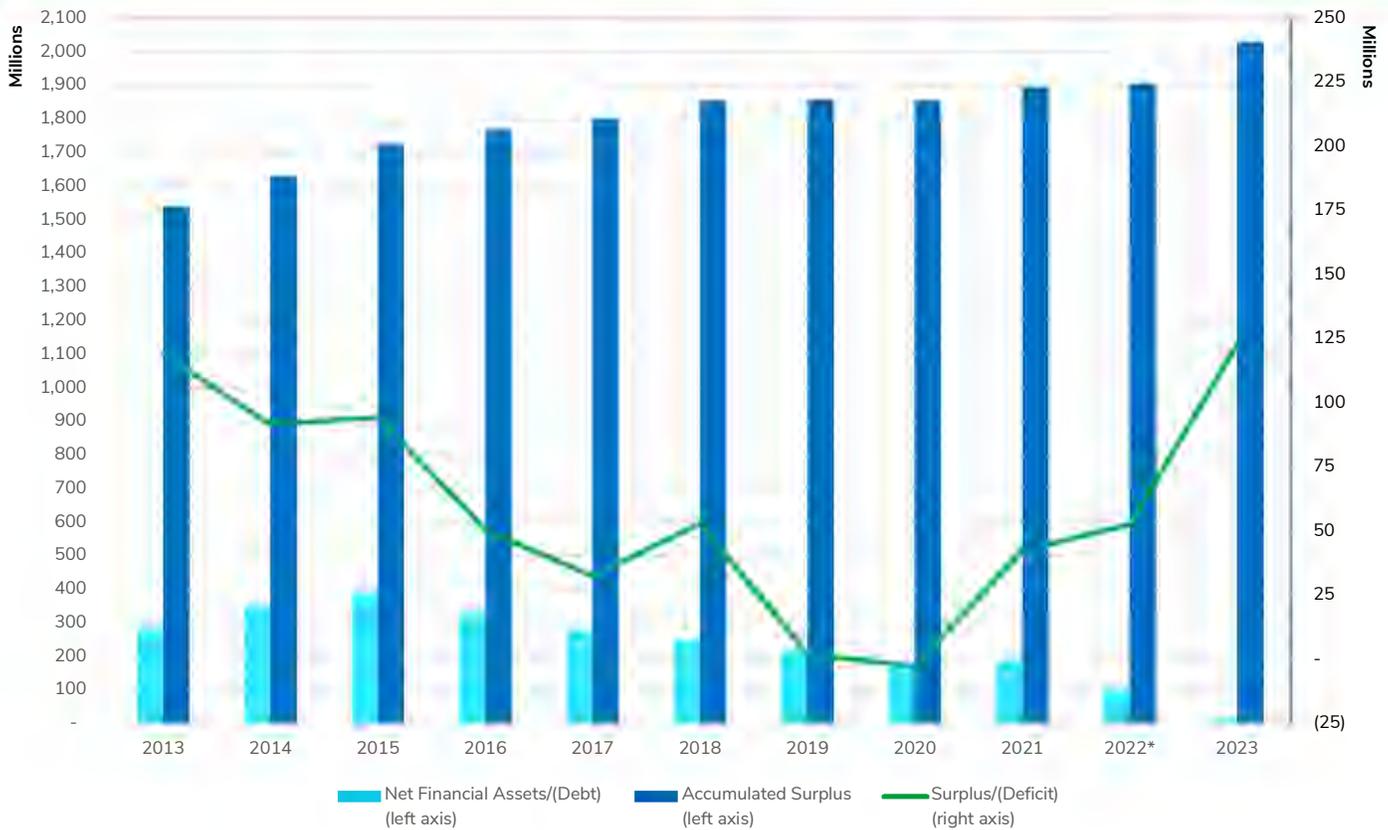
The Government's net financial assets decreased by \$88.1 million in 2022-23. This decrease was due to the increase of \$7.7 million in financial assets offset by the increase in liabilities of \$95.8 million.

The largest changes in financial assets were increases in retirement benefit assets of \$12.3 million, inventories for resale of \$9.9 million and investment in government business enterprises of \$9.1 million with an offsetting decrease of \$9.4 million in loans receivable along with various decreases across the remaining items.

The Government's liabilities increase was largely due to the increase of \$70.5 million in accounts payable and accrued liabilities, \$14.9 million in unearned revenues and \$8.1 million in environmental liabilities.

Accumulated surplus can be calculated as net financial assets plus non-financial assets such as tangible capital assets. The accumulated surplus of the Government at March 31, 2023 was \$2.029 billion (\$1.905 billion restated at March 31, 2022). The \$88.1 million decrease in net financial assets and the \$212.9 million increase in non-financial assets resulted in the \$124.7 million increase in accumulated surplus.

Net Financial Assets, Accumulated Surplus and Surplus (Deficit)



* 2022 restated due to adoption of PS 3280

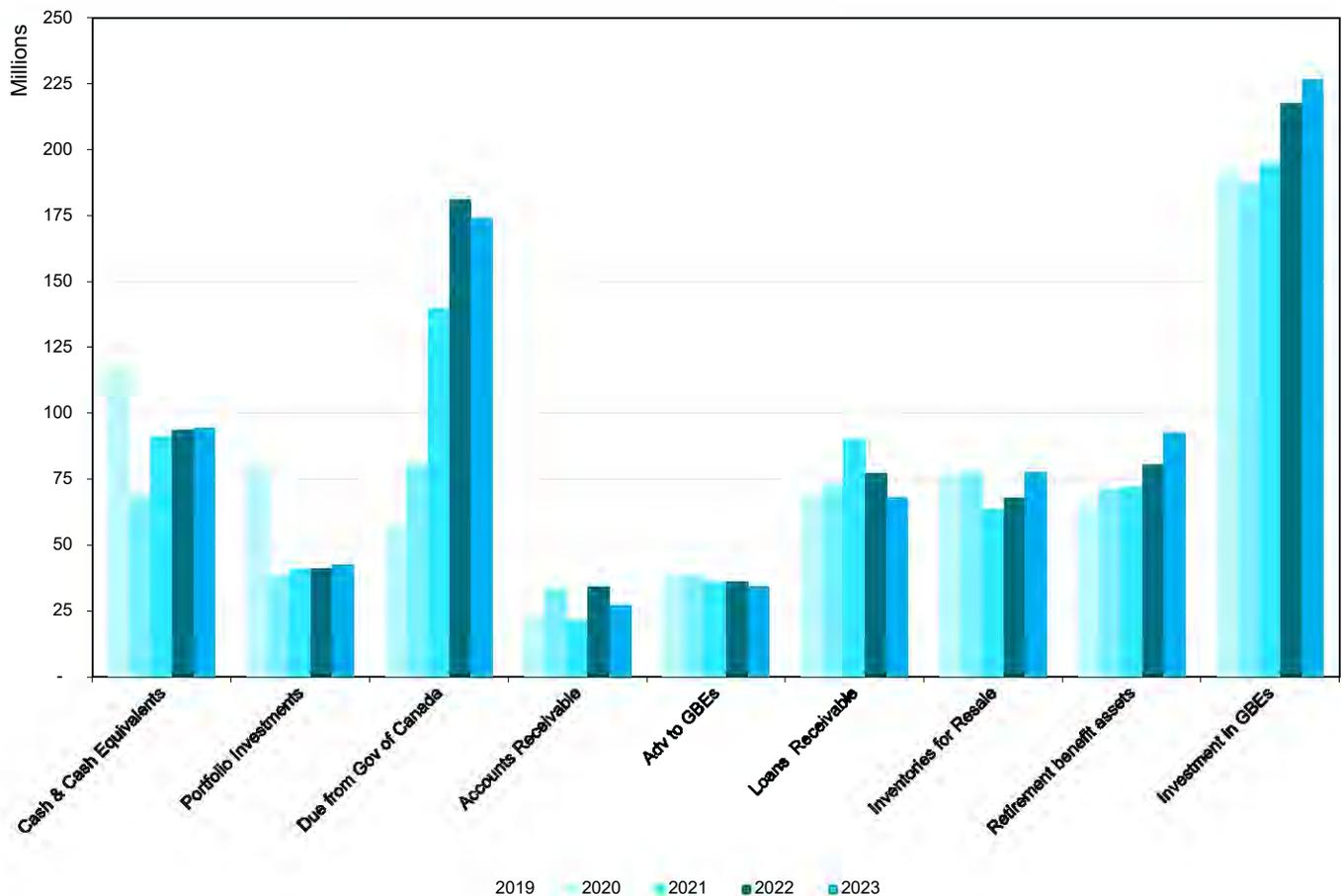
Details

Financial Assets

Financial assets consist of assets available to discharge existing liabilities or to fund future activities. At March 31, 2023, the value of total financial assets was \$836.6 million, which is an increase of \$7.7 million from the previous year. Within financial assets, retirement benefit assets increased by \$12.3 million from the previous year while inventories for resale increased by \$9.9 million, and investment in government business enterprises increased by \$9.1 million. Meanwhile loans receivable decreased by \$9.4 million, due from Government of Canada decreased by \$7.4 million and accounts receivable decreased by \$7.2 million.

In 2022-23, cash and cash equivalents accounted for \$94.4 million, or 11.3% of the total financial assets compared with 2021-22 when they accounted for \$93.5 million or 11.3%.

Financial Assets by type



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, 2023, the Government held \$94.4 million in cash and cash equivalents, which is an increase of \$0.9 million from the previous year.

Temporary investments

Temporary investments are no longer required to be reported separately and are now included below with the amounts reported under Portfolio investments.

Due from Government of Canada

At March 31, 2023, the Government had receivables from the Government of Canada in the amount of \$173.8 million, most of which were outstanding claims on cost-sharing agreements and projects delivered on behalf of the federal government. This was a decrease of \$7.4 million from the prior year.

Accounts receivable

Accounts receivable decreased to \$27.1 million at March 31, 2023 from \$34.3 million at March 31, 2022.

Portfolio investments

Portfolio investments are now reported at fair value as per PS 3041. Temporary investments have been added into this classification. Portfolio investments may include GICs, term deposits, floating rate notes and funds that include bonds and equities.

As at March 31, 2023, the Government held \$42.3 million in portfolio investments compared to \$40.9 million in the previous year reported as temporary investments at fair value of \$4.1 million and portfolio investments at cost of \$36.7 million.

As of March 31, 2023, \$36.2 million of the portfolio investments were specifically designated (\$34.7 million at March 31, 2022) 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 government business enterprises

As of March 31, 2023, the Government has an outstanding balance of \$34.2 million (\$36.2 million at March 31, 2022) on advances made to the government business enterprises.

Loans receivable

The Government has loans receivable of \$67.8 million, of which \$29.3 million, or 43.2%, were Yukon Housing Corporation mortgages receivable, followed by \$19.3 million, or 28.5%, in land sale related loans receivable that are also administered by the Yukon Housing Corporation.

Inventories for resale

Inventories for resale totaled \$77.7 million as of March 31, 2023. This was an increase of \$9.9 million (14.6%) from the previous year. The inventories largely consist of lots being developed by the Government for sale to the public.

Retirement benefit assets

Retirement benefit assets totaling \$92.7 million at March 31, 2023 (\$80.4 million at March 31, 2022) are held in relation to the Government's obligations for future pension benefits for employees of Yukon University and Yukon Hospital Corporation and represent the market value of the investments less the liability of the benefits based on an actuarial valuation.

Details

Financial Assets (continued)

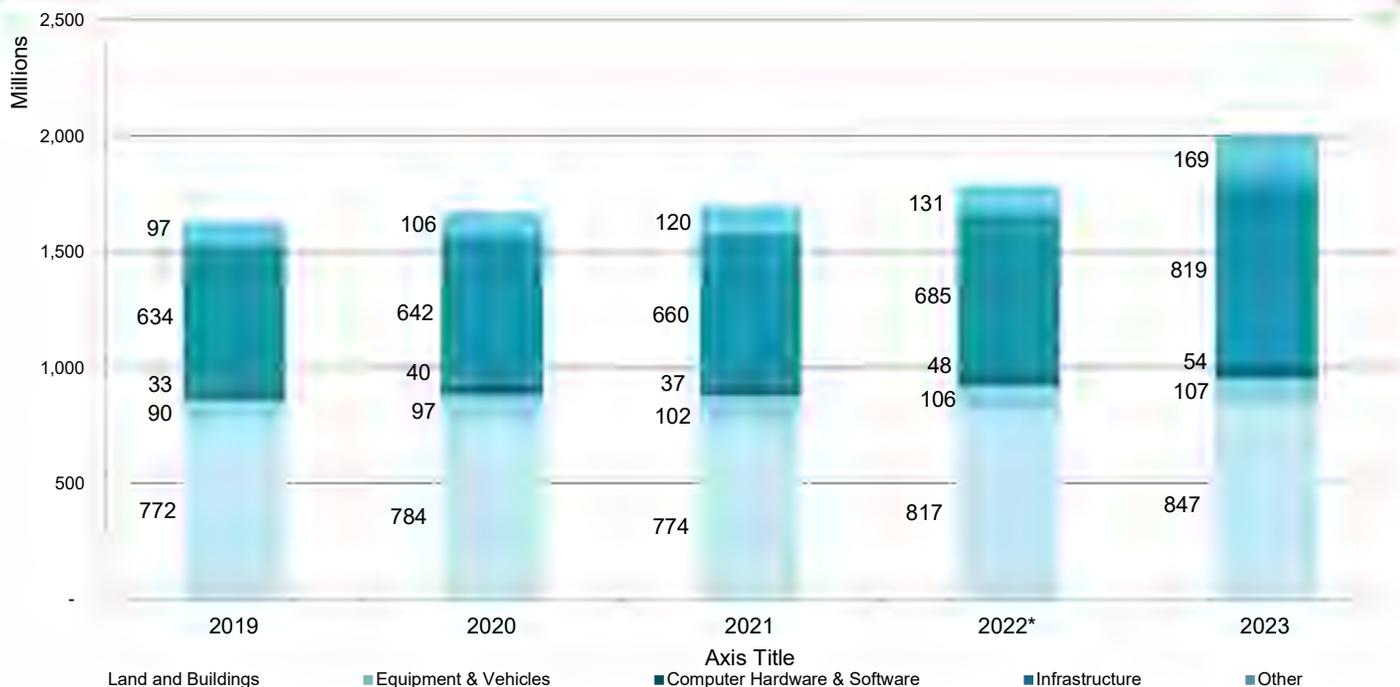
Investment in government business enterprises

Investment in government business enterprises, which are self-sustainable government corporations, represent 100% of the equity of the Yukon Development Corporation ("YDC") and the Yukon Liquor Corporation ("YLC"). YDC had equity of \$224.4 million at March 31, 2023 (2022 - \$215.2 million), and YLC had equity of \$2.1 million at March 31, 2023 (2022 - \$2.2 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.

Net Book Value of Tangible Capital Assets



* 2022 restated due to adoption of PS 3280

In 2022-23, the Government made the following investment in tangible capital assets:

| | | | |
|--|----|--------------|---------|
| Opening balance at April 1, 2022* | \$ | 1,787 | million |
| Net additions during the year | | 282 | million |
| Less: Amortization and other adjustments | | (73) | million |
| Balance at March 31, 2023 | \$ | <u>1,996</u> | million |

The Government's \$291.1 million investment was largely spent on infrastructure, buildings, communications technology, computer hardware and software and equipment and vehicles.

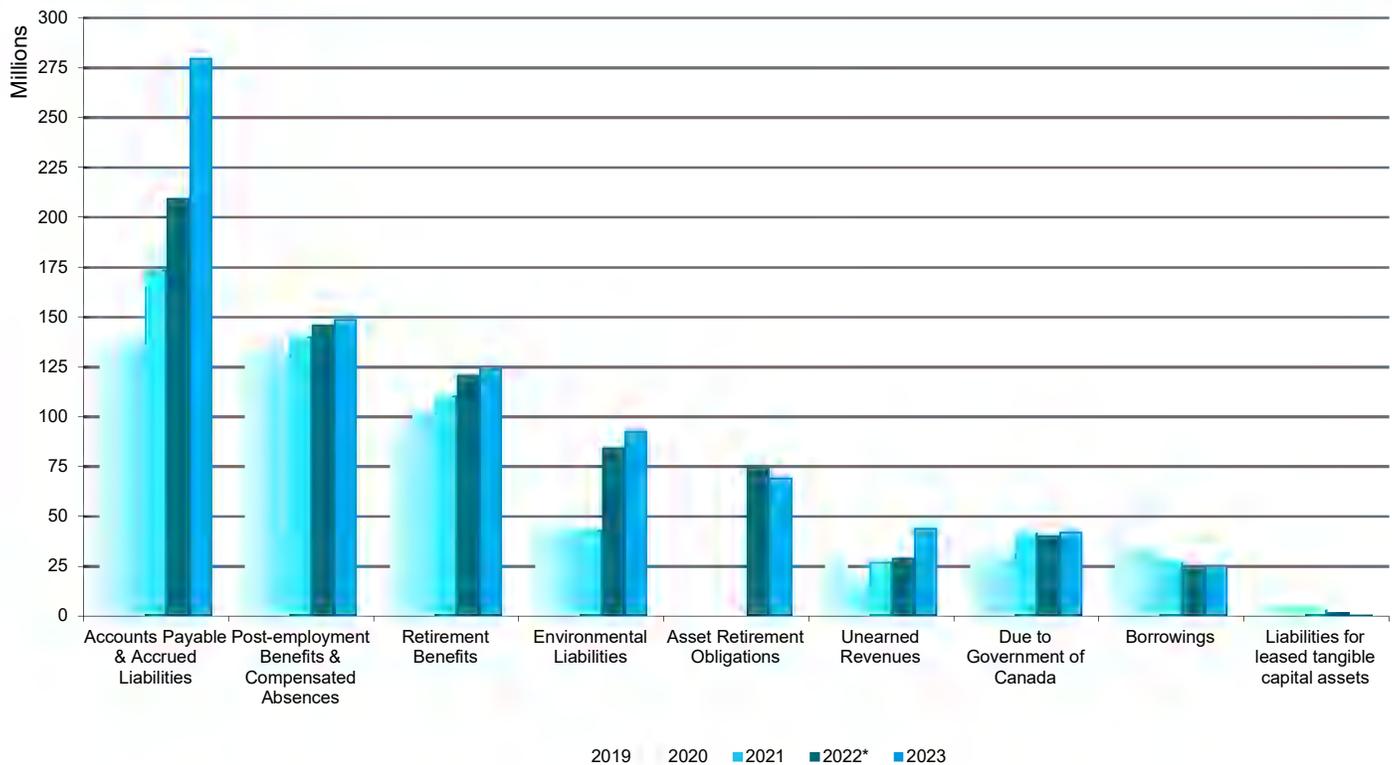
In accordance with the recommendations of the Public Sector Accounting Board of the Chartered Professional Accountants of Canada, the value of transferred Crown land is not reported as a tangible capital asset.

Details

Liabilities

At March 31, 2023, the liabilities of the Government totaled \$825.9 million (\$730.0 million restated at March 31, 2022), which is equivalent to 98.7% of the financial assets of the Government. A five-year comparison of the Government's liabilities by category is illustrated below:

Liabilities



(Note: In 2022-23 the Government adopted PS 3280 Asset retirement obligations which introduced a new estimated liability.)

* 2022 restated due to adoption of PS 3280

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

Due to Government of Canada

Amounts due to the Government of Canada at March 31, 2023 were \$42.2 million (\$40.2 million at March 31, 2022). These amounts consist primarily of funds due under various agreements for Income Taxes and Public Service Pension Plan contributions payable for the month of March 2023.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are amounts that are generally paid within a year. The balance of \$279.5 million at March 31, 2023 is an increase of 33.7% from the previous year's restated balance of \$209.0 million.

Included in this total is the outstanding balance of the Carbon Price Rebate liability of \$24.9 million (2022 - \$18.9 million).

Details

Liabilities (continued)

Environmental liabilities

At March 31, 2023, the Government has recorded \$92.5 million (\$84.3 million restated at March 31, 2022) as a liability for the estimated costs related to the remediation of environmental contamination for which the Government is responsible and can reasonably estimate the value. Of the liabilities, \$43.3 million (46.8%) is related to the Wolverine mine site, \$14.4 million (15.6%) is for the Wellgreen site, \$13.7 million (14.8%) is for highway maintenance camps and airports and \$10.9 million (11.8%) is for other storage tanks and buildings. Per PS 3280 asset retirement obligations, landfills that the Government is responsible for maintaining have been moved to that estimate.

Asset retirement obligations

New for 2022-23 with the adoption of PS 3280 asset retirement obligations.

At March 31, 2023, the Government has recorded \$69.4 million (\$75.1 million restated at March 31, 2022) as a liability for the estimated costs related to retirement activities that the Government is legally obligated to perform upon the retirement of certain tangible capital assets. Of the liabilities, \$50.7 million (73.1%) is related to the abatement of asbestos and other hazardous materials, \$15.5 million (22.3%) is related to the closure and post-closure costs for the landfills operated by the Government, \$2.6 million (3.7%) is related to the proper removal of fuel tanks and \$0.6 million (0.9%) relates to the remediation of forestry access roads.

Unearned revenues

Unearned revenues of \$44.2 million reported as of March 31, 2023 (\$29.2 million at March 31, 2022) 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, 2023 were \$148.9 million (\$145.8 million at March 31, 2022).

Retirement benefits liabilities

Retirement benefits liabilities totaled \$123.7 million at March 31, 2023 (\$120.7 million at March 31, 2022) 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 \$24.7 million reported as borrowings relates to the Yukon Hospital Corporation's demand term installment loans totaling \$23.6 million (\$22.6 million at March 31, 2022). 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 2022-23 the Yukon Hospital Corporation paid down the existing loans by \$3.8 million but also took on a new \$4.8 million loan for pension solvency payments.

Mortgages and loans payable by the Yukon Housing Corporation (Housing) represent a further \$0.8 million (\$1.3 million at March 31, 2022) of the Government's long term debt. These debts are with the Canada Mortgage and Housing Corporation (CMHC) so are included as due to the Government of Canada amounts in the Consolidated Statement of Financial Position.

In Note 19 to the Consolidated Financial Statements, the Government's 'total debt' as defined in the *Yukon Act* (Canada) includes the Housing debt owed to CMHC along with the borrowings of the consolidated government business enterprises of YDC and YLC as well as capital lease obligations. When all relevant items are taken into account the total debt is \$233.5 million at March 31, 2023 (\$216.4 million at March 31, 2022).

The Government of Canada on September 20, 2020 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

The Government of Yukon's financial results are subject to risks and uncertainties that arise from variables over which the government has limited or no direct control. These risks and uncertainties include:

- Economic factors, including economic growth or decline, commodity prices, private sector investment decisions, inflation, interest rates, population/demographics, and personal income;
- Changes in revenue, 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 and/or extreme outbreaks of disease;
- Natural disasters, such as floods, wildfires, extreme weather events, or other events that may impede the safe delivery of goods and services;
- Geopolitical events causing repercussions on economic or fiscal parameters;
- 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 with third parties;
- Identification of environmental liabilities;
- Changes in pension liability due to external factors such as interest rates or asset market values; and
- Changes in accounting standards.

While the Government of 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. 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 of Yukon 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 all departments and the resulting effect on the fiscal plan. This allows for any necessary supplementary estimates to be prepared, tabled and debated in the Legislative Assembly in order to address unanticipated spending or savings.

Changes to Canadian public sector accounting standards issued by the Public Sector Accounting Board can have an impact on the Government of Yukon's budgets, estimates and actual results; and on how they are presented in the Public Accounts. The Office of the Comptroller reviews proposed changes and provides input to assist the development of processes that reflect sound policy decision-making, transparency and accountability.

Risks and Mitigations

Emerging Issues

New Accounting Standards

The Public Sector Accounting Board (PSAB) of the Chartered Professional Accountants of Canada (CPA) is the body responsible for maintaining the Public Sector Accounting Standards (PSAS) that all public sector organizations are required to follow. For further clarity, the Government of Yukon is legislated to follow these reporting standards as per *Yukon Act* (Canada) s33 and *Taxpayer Protection Act* (Yukon) s4(2).

As business practices evolve and modernize, so must accounting practices, hence PSAB is continuously reviewing and updating the PSAS. A number of PSAS came into effect during the 2022-23 fiscal year with varying levels of impact which are summarized below.

PS 3280 - Asset Retirement Obligations (ARO) (effective April 1, 2022)

PS 3280 applies to all tangible capital assets owned or controlled by the Government; it requires that where there is a legal obligation to perform retirement activities for a tangible capital asset these retirement costs must be recognized at the time of acquiring the asset, or as soon as the costs can be estimated.

Work was completed to revise relevant policies, establish estimation and recording procedures, and to quantify the impact on financial position. A new liability for asset retirement obligations was added to the Consolidated Statement of Financial Position at an estimated value as of March 31, 2023 of \$69.4M while the related ARO assets added have a net-book-value of \$6.9M. There is a new non-cash expense called 'accretion' that records the annual change in the estimated value of the ARO liabilities; for 2022-23 that amount was \$1.9M.

PS 3041 - Portfolio Investments (effective April 1, 2022)

PS 3041 replaced existing PSAS 3040 with revised guidance on the accounting for, and presentation and disclosure of, portfolio investments.

The impact of this standard will fluctuate annually as the Government now reports the value of the investments at their fair value, otherwise known as market value. This annual restatement will cause a remeasurement gain or loss depending on the market trend which is outside the Government's control. At March 31, 2023, the remeasurement gain was calculated to be \$599,000. This is a non-cash revenue item as the gain or loss will not be realized until the investments are sold.

PS 3450 - Financial Instruments (effective April 1, 2022)

This PSAS establishes new guidance on the recognition, measurement, presentation and disclosure of financial instruments, including derivatives.

The impact of PS 3450 is predominately visual as it dictates how the financial instruments must be presented and what disclosure must be provided. One requirement was the addition of the Consolidated Statement of Remeasurement Gain and (Losses) which is related to the implementation of PS 3041. There are also several new disclosure notes about risks related to financial instruments.

PS 2601 - Foreign Currency Translation (effective April 1, 2022)

PS 2601 replaces existing PS 2600 with revised guidance on the recognition, presentation and disclosure of transactions that are denominated in a foreign currency.

Due to the low volume of foreign currency transactions, the Government had a negligible impact resulting from the adoption of this new standard which did not merit any new disclosures at this point. Volumes will be monitored to ensure proper disclosure should it be warranted.

PS 1201 - Financial Statement Presentation (effective April 1, 2022)

PS 1201 replaces existing PS 1200 with revised general reporting principles and standards of presentation and disclosure in government financial statements. These changes are required to incorporate the changes stemming from the new PS 3450, PS 3041, and PS 2601.

Similar to PS 3450, this standard mostly affected presentation and disclosure. Most pronounced is the change to the presentation of Accumulated Surplus (Deficit) on the Consolidated Statement of Financial Position which is now disaggregated between accumulated operating surplus and accumulated remeasurement gains and (losses).

Risks and Mitigations

Emerging Issues

New Accounting Standards (continued)

Below are a number of new, or amended, PSAS that the Government will be required to adopt on their effective date.

PS 3400 - Revenue (effective April 1, 2023)

This new PSAS establishes new guidance on the recognition, measurement, presentation and disclosure of revenue.

The Government is assessing the impact resulting from the adoption of this new standard which is anticipated to impact values reported as well as the way values are presented.

PS 3160 - Public Private Partnerships (effective April 1, 2023)

This new PSAS establishes new guidance on the recognition, measurement and disclosure of public private partnership arrangements.

The Government is confirming it does not have any public private partnership arrangements that fall under this new PSAS. If public private partnership arrangements exist or are entered into, the Government must evaluate and report them in accordance with this standard.

PS 1202 - Financial Statement Presentation (effective April 1, 2026)

PSAB approved in June 2023 a new *Conceptual Framework for Financial Reporting in the Public Sector*. PSAB says the ten chapters of the new conceptual framework document provide 'the foundation for principle-based standards' and 'is a coherent set of interrelated objectives and fundamentals leading to consistent standards or application of consistent concepts in the absence of specific standards'. The new Conceptual Framework is effective April 1, 2026, but early adoption of the framework is allowed.

PS 1202 Financial Statement Preparation will replace PS 1201 as the implementation of the New Conceptual Framework will require the introduction of new layouts for the existing financial statements and the introduction of new statements. This new standard for financial presentation will reflect the new Conceptual Framework's changes to a number of components and indicators that will be highlighted in the new presentation. PS 1202 implementation is required to coincide with the adoption of the new Conceptual Framework.