

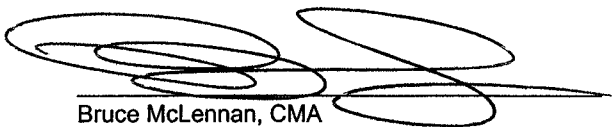
GOVERNMENT OF YUKON

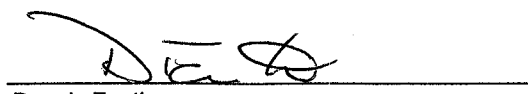
Consolidated Statement of Financial Position
as at March 31, 2003

	2003	2002
	(thousands of dollars)	
ASSETS		
Cash and cash equivalents (Note 4)	\$ 1,839	\$ 30,274
Temporary investments (Note 5)	-	11,521
Due from Canada (Note 6)	81,558	39,958
Accounts receivable (Note 7)	11,581	10,150
Inventories	3,148	3,666
Loans receivable (Note 8)	60,547	60,150
Land held for sale (Note 9)	24,224	27,632
Investments in government business enterprises (Note 10(a))	116,216	111,258
Tangible capital assets, at a nominal value of one dollar (Note 11)	-	-
	<u>\$ 299,113</u>	<u>\$ 294,609</u>
LIABILITIES		
Bank indebtedness (Note 4)	\$ 1,612	\$ 3,413
Due to Canada (Note 6)	6,351	4,845
Accounts payable and accrued liabilities (Note 12)	42,697	44,501
Deferred revenues	9,627	8,848
Post-employment benefits (Note 13)	41,558	33,214
Long-term debt (Note 14)	31,054	31,646
	<u>132,899</u>	<u>126,467</u>
Contingencies, commitments and guarantees (Notes 9, 10, 20, 22, 23, 24 and 25)		126,467
ACCUMULATED SURPLUS		
Accumulated surplus	<u>166,214</u>	<u>168,142</u>
	<u>\$ 299,113</u>	<u>\$ 294,609</u>

The accompanying notes and schedules are an integral part of these consolidated financial statements.

Approved:


Bruce McLennan, CMA
Deputy Head of the Department of Finance


Dennis Fentie
Minister of Finance

GOVERNMENT OF YUKON

**Consolidated Statement of Operations and Accumulated Surplus
for the year ended March 31, 2003**

	2003		2002
	Main Estimates (Note 19)	Actual	Actual
	(thousands of dollars)		
Revenues (Schedule A)			
Grant from Canada (Note 15)	\$ 346,004	\$ 381,821	\$ 348,646
Taxes and general revenues	67,964	68,242	68,707
Transfer payments from Canada	21,730	19,889	25,831
Investment income	4,796	9,349	10,418
Recoveries (Schedule B)			
Operations and maintenance	41,071	39,984	37,366
Capital	33,911	33,489	27,346
	<u>515,476</u>	<u>552,774</u>	<u>518,314</u>
Expenditures (Note 16 and Schedule C)			
Operations and maintenance	446,699	456,494	431,583
Capital	104,747	96,498	103,530
	<u>551,446</u>	<u>552,992</u>	<u>535,113</u>
Recovery of prior years' expenditures	-	772	838
Surplus (deficit) for the year	<u><u>\$ (35,970)</u></u>	554	(15,961)
Accumulated surplus at beginning of year		168,142	184,103
Adjustment to accumulated surplus, beginning of year - change in accounting policy (Note 3)		<u>(2,482)</u>	-
Accumulated surplus at beginning of year, restated		<u>165,660</u>	<u>184,103</u>
Accumulated surplus at end of year		<u><u>\$ 166,214</u></u>	<u><u>\$ 168,142</u></u>

The accompanying notes and schedules are an integral part of these consolidated financial statements.

GOVERNMENT OF YUKON

Consolidated Statement of Cash Flows
for the year ended March 31, 2003

	2003	2002
	(thousands of dollars)	
Operating activities		
Surplus (deficit) for the year	\$ 554	\$ (15,961)
Non-cash items included in surplus for the year		
Write-down of temporary investments	-	46
Provision for doubtful loans receivable and accounts receivable	(115)	1,326
Provision for write-down of land held for sale	3,010	38
Gain on sale of lots	(327)	(116)
Investment income from government business enterprises	(4,958)	(5,498)
Provision for post-employment benefits	8,344	20
Adjustment due to change in accounting policy (Note 3)	(2,482)	-
Changes in non-cash operating activities		
Decrease (increase) in temporary investments	11,520	(2,347)
Decrease (increase) in due from Canada	(41,600)	44,523
Decrease (increase) in accounts receivable	(1,287)	1,061
Decrease (increase) in inventories	519	(512)
Increase (decrease) in due to Canada	1,507	(842)
Increase (decrease) in accounts payable and accrued liabilities	(1,804)	4,770
Increase (decrease) in deferred revenues	779	(475)
Cash flows (used in) from operating activities	<u>(26,340)</u>	<u>26,033</u>
Investing activities		
Investment in land held for sale	(2,936)	(2,462)
Proceeds from sale of land held for sale	243	673
Loans advanced	(9,304)	(15,511)
Loans repaid	12,296	12,263
Cash flows from (used in) investing activities	<u>299</u>	<u>(5,037)</u>
Financing activities		
Issue of long-term debt	300	1,415
Repayment of long-term debt	(893)	(822)
Cash flows (used in) from financing activities	<u>(593)</u>	<u>593</u>
Net (decrease) increase in cash and cash equivalents	(26,634)	21,589
Cash and cash equivalents		
Beginning of year	26,861	5,272
End of year (Note 4)	<u>\$ 227</u>	<u>\$ 26,861</u>
Supplemental information		
Interest paid in the year	\$ 2,659	\$ 2,742
Interest received in the year	4,117	4,398

The accompanying notes and schedules are an integral part of these consolidated financial statements.

GOVERNMENT OF YUKON

Consolidated Statement of Tangible Capital Assets
for the year ended March 31, 2003

	Land	Buildings	Equipment	Vehicles	Computer hardware and software	Other*	2003 Total	2002 Total (Restated)**
	(thousands of dollars)							
Cost of tangible capital assets, opening	\$ 5,194	\$ 372,726	\$ 59,107	\$ 9,432	\$ 18,352	\$ 3,794	\$ 468,605	\$ 454,021
Acquisitions	220	30,521	1,557	965	1,333	59	34,655	15,526
Disposals	(2)	(1,942)	(1,487)	(426)	(18)	(67)	(3,942)	(942)
Cost of tangible capital assets, closing	5,412	401,305	59,177	9,971	19,667	3,786	499,318	468,605
Accumulated amortization, opening	-	138,005	30,294	5,422	11,616	1,994	187,331	172,320
Amortization expense	-	10,848	3,358	850	1,646	186	16,888	15,791
Write-downs	-	-	-	-	-	-	-	-
Disposals	-	(1,882)	(1,192)	(364)	(18)	(50)	(3,506)	(780)
Accumulated amortization, closing	-	146,971	32,460	5,908	13,244	2,130	200,713	187,331
Net book value	5,412	254,334	26,717	4,063	6,423	1,656	298,605	281,274
Work-in-progress	-	2,235	-	-	754	-	2,989	28,399
	\$ 5,412	\$ 256,569	\$ 26,717	\$ 4,063	\$ 7,177	\$ 1,656	\$ 301,594	\$ 309,673

* Includes portable classrooms, housing trailers, land fixtures and leasehold improvements.

** During the year, the value of the airports' assets, excluding the airport runways, which were transferred from Canada was established and included in the opening balances of all categories.

GOVERNMENT OF YUKON

Notes to Consolidated Financial Statements
March 31, 2003

1. **Authority and operations**

The Government of Yukon (the Government) operates under the authority of the *Yukon Act* (Canada). All disbursements for operations and loans are authorized by the Yukon Legislative Assembly.

The Yukon Housing Corporation operates under the authority of the *Housing Corporation Act* (Yukon).

2. **Significant accounting policies**

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Government and organizations accountable to and controlled by the Government. The entities that exist to deliver the executive functions of the Government are fully consolidated in these financial statements. The entities that are deemed to be government partnerships are accounted for using the proportionate consolidation method. The entities that are deemed to be government business enterprises are accounted for using the modified equity method.

The organizations comprising the consolidated government reporting entity, categorized by accounting method are:

Fully consolidated:

Government of Yukon
Yukon Housing Corporation

Proportionate consolidation:

19596 Yukon Inc.

Modified equity:

Yukon Development Corporation
Yukon Liquor Corporation
Yukon Government Fund Limited

In October 1999 the Government, with Northwestel Inc. and another partner, formed a government partnership, 19596 Yukon Inc., in order to carry out the "Connect Yukon" telecommunication infrastructure development project to provide high speed internet services in the Yukon. 19596 Yukon Inc. has been financed with \$10.5 million from the Yukon Government Fund Limited (Note 10(c)). 19596 Yukon Inc. leases equipment to Northwestel Inc.

Trusts administered by the Government on behalf of other parties (Note 18) are excluded from the consolidated Government reporting entity.

GOVERNMENT OF YUKON

Notes to Consolidated Financial Statements March 31, 2003

(b) Basis of accounting

Revenues

Revenues are recorded on an accrual basis unless the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable. The exceptions are as follows:

Income taxes, levied under the *Income Tax Act* (Yukon), are collected by Canada under a tax collection agreement and are remitted to the Government monthly. The remittances are based on estimates for the taxation year, which are periodically adjusted until the income tax assessments for that year are completed. The remittances for the taxation year are recognized as revenues of the fiscal year in which the taxation year ends, together with known income tax adjustments arising in the fiscal year.

Revenue from general property tax, assessed on a calendar year basis, is recognized in the fiscal year in which the calendar year ends.

Expenditures

Operations, maintenance and capital expenditures are recorded on an accrual basis. Transfer payments are recorded as expenditures when paid or when the terms of a contractual transfer agreement have been met.

Lease payments under capital and operating leases are recorded respectively as capital and operations and maintenance expenditures.

Expenditures are recovered from Canada and other sources under various cost-sharing agreements including reconstruction of the Alaska Highway, social assistance and occupational training. The amounts are recorded as recoverable in the year in which the related expenditures are incurred. Any adjustments upon finalization are reflected in the accounts in the year of adjustment.

Recovery of prior years' expenditures includes reversal of amounts accrued in prior years which are in excess of actual expenses. These amounts cannot be used to increase the amount appropriated for expenditures for the current year.

Assets

Temporary investments are valued at the lower of cost and market value.

Inventories consist primarily of fuel and lubricants, repair parts, stationery and office supplies, highway materials, and engineering, building and maintenance supplies, and are valued at the lower of cost and replacement value. Other materials and supplies are charged to expenditures at the time of acquisition.

Loans receivable are stated at principal amounts. Valuation allowances, which are recorded to reduce loans receivable to their net recoverable amount, are based on historical experience, current conditions and all circumstances known at the date of the preparation of the financial statements. Interest revenue is recognized on an accrual basis until such time that the collectibility of either principal or interest is not reasonably assured.

GOVERNMENT OF YUKON

Notes to Consolidated Financial Statements March 31, 2003

Land held for sale comprises the costs of acquiring, planning and developing serviced lots for eventual sale. The lots are valued at cost, except, when there has been a loss in value that is other than a temporary decline, in which case the lots are written down to recognize the loss. Gains or losses on the sale of lots are recognized at the time of sale.

Tangible capital assets are charged to expenditures at the time of acquisition or construction and are shown on the consolidated statement of financial position at a nominal value of one dollar.

Liabilities

Liabilities include financial claims payable by the Government and deferred revenues.

Deferred revenues are cash received for which goods and services have not been provided by year-end, and are comprised of remittances of income taxes for the first three months of the following taxation year together with motor vehicle licence fees and other items for the following fiscal year.

(c) Investments

The *Financial Administration Act* (Yukon) allows the Government to invest money from the consolidated revenue fund in the following investments:

- securities that are obligations of, or guaranteed by, Canada or a province;
- fixed deposits, notes, certificates and other short term paper of, or guaranteed by, a bank including swapped deposit transactions in currency of the United States of America;
- commercial paper issued by a company incorporated under the laws of Canada or a province, the securities of which are rated in the highest rating category by at least two recognized security rating institutions.

The duration of the securities held depends on cash projections but usually averages under a year in length.

(d) Grant and transfer payments from Canada

The grant is subject to the terms of a financial agreement with Canada and is receivable in monthly instalments. Periodic adjustments, as they become known, are made to the grant when income taxes, Canada Health and Social Transfer contributions and certain operating revenues and recoveries collected by the Government differ from the estimated amounts which were used to determine the grant for the fiscal year. Further adjustments are made in accordance with escalation and tax effort adjustment clauses in the agreement. Other adjustments may arise out of new federal initiatives or unforeseen events.

Transfer payments are received from Canada in accordance with the *Federal-Provincial Fiscal Arrangements Act*. Adjustments are made in accordance with the arrangements in the year they are known.

GOVERNMENT OF YUKON

Notes to Consolidated Financial Statements March 31, 2003

(e) Post-employment benefits

Post-employment benefits are expected to be provided after employment but before retirement to employees and their beneficiaries. These benefits include severance benefits and accumulated sick, vacation, compensatory and personal leave and travel bonus benefits that are paid in cash when the employee terminates. The Government recognizes the obligation for these benefits as a liability and uses an actuary to estimate the amount of the obligation.

(f) Retirement benefits

The Government's employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Government's contributions are recorded as expenditures on a current basis and represent the total pension obligations of the Government.

Retirement benefits to Members of the Legislative Assembly and judges are valued on an actuarial basis. Actuarial valuations of these benefits are performed triennially using the projected benefit method prorated on services. Actuarial gains and losses are amortized over the estimated average remaining service lives of the participants. The Government administers and accounts for the plan assets of the Legislative Assembly Retirement Allowances Plan as a trust asset. As the Government is not required to maintain a fund for the Territorial Court Judiciary Pension Plan, there are no assets for this plan. The accrued benefit liability for these plans, which is calculated as the accrued benefit obligation less plan assets, if any, adjusted by unamortized actuarial gains or losses, is included in accrued liabilities.

(g) Measurement uncertainty

The preparation of financial statements in accordance with these accounting policies requires the Government to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenditures reported in the financial statements. By their nature, these estimates are subject to measurement uncertainty. The effect on the financial statements of changes to such estimates and assumptions in future periods could be significant although, at the time of preparation of these statements, the Government believes the estimates and assumptions to be reasonable. Some of the more significant management estimates relate to the grant from Canada, the obligation for post-employment benefits and contingencies.

3. Change in accounting policy

During the year, the Government fully adopted, on a retroactive basis, the recommendations issued by the Canadian Institute of Chartered Accountants with respect to accounting for retirement benefits for members of the Legislative Assembly. The recommendations also require a change in the discount rate used to value pension benefit obligations and service costs from an estimated long-term rate to a market-based interest rate.

The effect of this change in accounting policy has been recorded on a retroactive basis with a charge to opening accumulated surplus and no restatement of prior financial statements. The effect on the opening accumulated surplus was a reduction of \$2,482,000.

GOVERNMENT OF YUKON

Notes to Consolidated Financial Statements
March 31, 2003

4. **Cash and cash equivalents/Bank indebtedness**

	2003	2002
	(thousands of dollars)	
Short-term investments	\$ 1,773	\$ 30,211
Cash on hand	66	63
	1,839	30,274
 Bank indebtedness	 (1,612)	 (3,413)
	\$ 227	\$ 26,861

Cash and cash equivalents include cash on hand and balances with banks, and short-term investments that have terms to maturity of less than 90 days from the dates of acquisition.

5. **Temporary investments**

	2003		2002	
	Market Value	Book Value	Market Value	Book Value
	(thousands of dollars)			
Mid-term notes	\$ -	\$ -	\$ 5,125	\$ 5,120
Commercial paper	-	-	5,075	5,086
Government of Canada coupons	-	-	945	983
Bankers' acceptance	-	-	376	376
	\$ -	\$ -	\$ 11,521	\$ 11,565

Temporary investments during the year had a weighted average effective yield of 3.5%, (2002 – 2.9%) per annum.

GOVERNMENT OF YUKON

Notes to Consolidated Financial Statements
March 31, 2003

6. Due from/to Canada

	<u>2003</u>	<u>2002</u>
	(thousands of dollars)	
Due from Canada		
Cost-sharing agreements and projects delivered on behalf of Canada	\$ 41,477	\$ 36,292
Federal grant receivable	39,947	3,587
Other	134	79
	<u>\$ 81,558</u>	<u>\$ 39,958</u>
Due to Canada		
RCMP	\$ 3,430	\$ 2,801
Superannuation contribution payable	1,735	-
Income tax payable	825	-
Devolution funding repayable	-	1,322
Other	361	722
	<u>\$ 6,351</u>	<u>\$ 4,845</u>

Amounts due from and due to Canada are payable on demand and are non-interest bearing. The carrying amounts approximate fair market values because of their short term to maturity.

7. Accounts receivable

	<u>2003</u>	<u>2002</u>
	(thousands of dollars)	
Taxes, interest and other revenue receivables	\$ 11,064	\$ 10,905
Less valuation allowances	<u>(3,679)</u>	<u>(3,606)</u>
	7,385	7,299
Due from Territorial corporations	3,291	2,010
Prepaid expenses	<u>905</u>	<u>841</u>
	<u>\$ 11,581</u>	<u>\$ 10,150</u>

GOVERNMENT OF YUKON

Notes to Consolidated Financial Statements
March 31, 2003

8. Loans receivable

	<u>2003</u>	<u>2002</u>
	(thousands of dollars)	
Mortgages receivable, due in varying annual amounts to the year 2022, bearing interest rates ranging from 0.0% to 8.5%	\$ 44,253	\$ 42,503
Debenture loans to municipalities, due in varying annual amounts to the year 2026, bearing interest rates ranging from 5.0% to 13.3%	9,855	11,430
Business development assistance loans, due in varying annual amounts with varying terms, bearing interest rates ranging from 0.0% to 13.6%	4,427	4,996
Agreements for sale, due in varying annual amounts over a three or five year term to the year 2008, bearing interest rates ranging from 4.8% to 8.5%	2,592	2,271
Local improvement loans, due in varying annual amounts to the year 2031, bearing interest rates ranging from 2.3% to 13.5%	2,217	1,946
Others	503	504
Less valuation allowances	<u>(3,300)</u>	<u>(3,500)</u>
	<u>\$ 60,547</u>	<u>\$ 60,150</u>

9. Land held for sale

	<u>2003</u>	<u>2002</u>
	(thousands of dollars)	
Raw land	\$ 45	\$ 45
Land under development	9,517	13,879
Finished land	<u>14,662</u>	<u>13,708</u>
	<u>\$ 24,224</u>	<u>\$ 27,632</u>

Land held for sale is affected by the Yukon First Nations land claims negotiations. At March 31, 2003, \$4.4 million (2002 - \$2.7 million) of finished land is included in the scope of existing land claims. Recovery of costs of the land selected in land claims settlements is to be provided for by Canada as per provisions of the Bilateral Agreement of June 24, 1993.

GOVERNMENT OF YUKON

Notes to Consolidated Financial Statements
March 31, 2003

10. **Investments in government business enterprises**

(a) Summary financial statements

Summary financial statements of the government entities accounted for by the modified equity method are provided below. The Yukon Development Corporation and the Yukon Government Fund Limited have a fiscal year end of December 31. The Yukon Liquor Corporation has a fiscal year end of March 31.

	Yukon Development Corporation	Yukon Government Fund Limited	Yukon Liquor Corporation	2003 Total	2002 Total
	(as at December 31, 2002)		(as at March 31, 2003)		
	(thousands of dollars)				
Balance Sheet					
Assets					
Current	\$ 15,963	\$ 1,229	\$ 3,259	\$ 20,451	\$ 39,094
Investments	3,810	-	-	3,810	4,082
Capital Assets	153,602	-	2,958	156,560	134,247
Other	14,325	14,191	-	28,516	22,597
	<u>\$ 187,700</u>	<u>\$ 15,420</u>	<u>\$ 6,217</u>	<u>\$ 209,337</u>	<u>\$ 200,020</u>
Liabilities					
Current	\$ 10,087	\$ 14	\$ 2,461	\$ 12,562	\$ 7,448
Long-term debt and other	64,645	15,116	798	80,559	81,314
Equity	112,968	290	2,958	116,216	111,258
	<u>\$ 187,700</u>	<u>\$ 15,420</u>	<u>\$ 6,217</u>	<u>\$ 209,337</u>	<u>\$ 200,020</u>
Statement of Operations and Equity					
Revenues	\$ 26,202	\$ 883	\$ 10,627	\$ 37,712	\$ 35,814
Expenses	21,548	659	6,156	28,363	25,396
Surplus	4,654	224	4,471	9,349	10,418
Remitted to the Government	-	-	(4,391)	(4,391)	(4,920)
Equity, beginning of year	108,314	66	2,878	111,258	105,760
Equity, end of year	<u>\$ 112,968</u>	<u>\$ 290</u>	<u>\$ 2,958</u>	<u>\$ 116,216</u>	<u>\$ 111,258</u>

Equity represents the Government's investment in the government business enterprises.

GOVERNMENT OF YUKON

Notes to Consolidated Financial Statements
March 31, 2003

(b) Inter-entity balances and transactions

	Yukon Development Corporation (as at December 31, 2002)	Yukon Government Fund Limited (as at March 31, 2003)	Yukon Liquor Corporation (as at March 31, 2003)	2003 Total	2002 Total
(thousands of dollars)					
Government of Yukon					
Accounts receivable from	\$ 84	\$ -	\$ 1,110	\$ 1,194	\$ 420
Loans receivable from	-	116	-	116	115
Accounts payable to	44	16	1	61	97
Loans payable to	-	2,572	-	2,572	2,272
Revenues from	213	-	786	999	562
Expenditures to	10,410	194	-	10,604	7,619

(c) Commitments

Yukon Government Fund Limited

On January 4, 1999 the Yukon Government Fund Limited finalized a Confidential Offering Memorandum for filing with the Business Immigration Division, Department of Citizenship and Immigration Canada. The offering expired on March 31, 1999. The company has obtained \$15.0 million (2002 - \$13.3 million) from investors, of which \$3.0 million (2002 - \$2.7 million) is restricted. \$10.5 million (2002- \$9.3 million) has been loaned to 19596 Yukon Inc. (Note 2(a)). The company has committed to use the remaining proceeds of the offering to invest in eligible businesses in the Yukon.

The \$15.0 million due to investors is repayable as follows:

	(thousands of dollars)
2005	\$ 5,000
2006	8,000
2007	<u>2,000</u>
	<u>\$ 15,000</u>

GOVERNMENT OF YUKON

Notes to Consolidated Financial Statements
March 31, 2003

(d) Guarantees

The Government has guaranteed debts of the Yukon Development Corporation of \$43.5 million (2002 - \$44.4 million). In addition, the Government has guaranteed an operating demand overdraft facility to the Yukon Energy Corporation, a wholly owned subsidiary of the Yukon Development Corporation, of up to \$10.0 million. It is expected that no significant costs will be incurred by the Government with respect to these guarantees.

11. **Tangible Capital Assets**

Tangible capital assets are buildings, roads, equipment, etc. whose life extends beyond the fiscal year and are intended to be used on an ongoing basis for delivering services.

The Government is in the process of accumulating information on all of its tangible capital assets. As each asset category is completed, cost and amortization information will be presented in the statement of tangible capital assets. For example, infrastructure costs for roads and bridges have yet to be determined.

In the statement of tangible capital assets, tangible capital assets are reported at cost. Tangible capital assets transferred from Canada are reported at their fair market value at the date of transfer or, if it is not available, at the appraised value at various appraisal dates. Tangible capital assets that are held and available for use by the Government are reported based on the following capitalization thresholds and estimated useful lives.

<u>Asset category</u>	<u>Threshold</u>	<u>Estimated useful life</u>
Land	Nil	N/A
Buildings	\$50,000	40 years
Portable classrooms/housing trailers	\$50,000	20 years
Land improvements and fixtures	\$50,000	20 years
Heavy equipment	\$10,000	7 - 30 years
Operating equipment	\$10,000	7 - 25 years
Vehicles	\$10,000	6 - 15 years
Computer hardware	\$10,000	5 years
Computer software	\$100,000	7 years
Leasehold improvements	\$50,000	Lease term

Tangible capital assets under construction or development are reported as work-in-progress with no amortization until the asset is placed in service. The Government owns and/or maintains various historical sites. The Government also holds works of art with a total insured value of \$2 million. Works of art and historical treasures are not included in the Statement of Tangible Capital Assets.

GOVERNMENT OF YUKON

**Notes to Consolidated Financial Statements
March 31, 2003**

12. **Accounts payable and accrued liabilities**

	2003	2002
	(thousands of dollars)	
Accrued liabilities	\$ 24,472	\$ 23,212
Accounts payable	13,568	14,858
Due to Territorial corporations	2,937	3,237
Contractors' holdbacks and security deposits	1,720	3,194
	\$ 42,697	\$ 44,501

13. **Post-employment benefits**

The actuarial obligation for sick and vacation leave and severance benefits is calculated using the projected benefit method pro-rated on service. The obligation for compensatory and personal leave and travel bonus benefits is calculated assuming all employees would cash in those benefits on valuation date. In projecting the accrued obligation for these benefits as at March 31, 2003, the actuary used, as economic assumptions, the liability discount rate of 7.0%, the annual rates of general salary increases of 3.0% and the annual rate of inflation of 3.0%.

Expenses related to post-employment benefits for the year ended March 31, 2003 were \$11,549,000 (2002 - \$2,571,000). At March 31, 2002 the Government limited the post-employment benefits liability to the level established for the previous year. The effect of this capping of the liability was an understatement of expenditures for the year ended March 31, 2002 by \$7,195,000. At March 31, 2003, the Government fully recognized the post-employment benefits liability based on the actuarial valuation. The current year's expenses of \$11,549,000 include the expenses that are applicable to the previous year. Benefits paid by the Government from the post-employment benefits liability during the year amounted to \$3,205,000 (2002 - \$2,551,000).

GOVERNMENT OF YUKON

Notes to Consolidated Financial Statements
March 31, 2003

14. Long-term debt

	<u>2003</u>	<u>2002</u>
	(thousands of dollars)	
Mortgages, with a variety of terms, secured by fixed charges against housing projects, repayable in blended monthly payments with maturities up to the year 2029, bearing fixed interest rates ranging from 5.1% to 12.5%	\$ 20,141	\$ 20,799
Canada Mortgage and Housing Corporation loans, repayable in blended annual payments with maturities up to the year 2028, bearing fixed interest rates ranging from 5.0% to 13.3%	4,563	4,724
Loans from Canada, repayable in annual instalments with maturities up to the year 2008, bearing fixed interest rates ranging from 6.1% to 11.1%	3,742	3,786
Loan from the Yukon Government Fund Limited, principal repayment at maturity of May 1, 2005, with interest payable monthly at the annual rate of 7.7% calculated and compounded semi-annually	2,573	2,272
Other debentures, repayable in semi-annual instalments with maturities up to the year 2004, bearing a fixed interest rate of 13.0%	<u>35</u>	<u>65</u>
	<u>\$ 31,054</u>	<u>\$ 31,646</u>

Principal repayment requirements over the next five years on outstanding loans are as follows:

	(thousands of dollars)
2004	\$ 941
2005	970
2006	3,628
2007	1,721
2008	4,404
Thereafter	<u>19,390</u>
	<u>\$ 31,054</u>

GOVERNMENT OF YUKON

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15. **Grant from Canada**

	<u>2003</u>	<u>2002</u>
	(thousands of dollars)	
Formula Financing grant entitlement	\$ 366,278	\$ 348,347
Adjustments in respect of:		
Census one-time	15,187	-
Formula financing escalators	(1,524)	238
Tax effort adjustment	(2,949)	2,753
Own source revenues and recoveries	<u>5,326</u>	<u>(1,875)</u>
Formula Financing grant	382,318	349,463
Less oil and gas revenue offset	<u>(497)</u>	<u>(817)</u>
Grant from Canada per Schedule of Revenues (Schedule A)	<u>\$ 381,821</u>	<u>\$ 348,646</u>

The Government receives a grant from Canada according to an agreed formula. The current Formula Financing Agreement with Canada is in effect for the period April 1, 1999 to March 31, 2004.

The Formula Financing grant calculation was finalized using July 1 population statistics released by Statistics Canada on September 25, 2003. This resulted in increased Formula Financing grant revenue of \$23.7 million.

16. **Expenditures by object**

	<u>2003</u>	<u>2002</u>
	(thousands of dollars)	
Operations and maintenance		
Personnel	\$ 216,034	\$ 199,240
Transfer payments	96,379	92,943
Contract and special services	74,864	70,361
Materials, supplies and utilities	43,808	42,528
Communication and transportation	17,579	15,625
Loan interest	2,646	2,737
Other	<u>5,184</u>	<u>8,149</u>
	<u>\$ 456,494</u>	<u>\$ 431,583</u>
Capital		
Building and infrastructure	\$ 62,448	\$ 68,491
Transfer payments	17,118	19,189
Equipment	6,484	11,157
Other	<u>10,448</u>	<u>4,693</u>
	<u>\$ 96,498</u>	<u>\$ 103,530</u>

GOVERNMENT OF YUKON

Notes to Consolidated Financial Statements
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17. **Pension plans**

(a) Public Service Superannuation Plan

The Government's employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Government contributes at a rate of 2.14 times the employee's contribution. The Government's contributions to the Public Service Superannuation Plan during the year and recorded as expenditures were \$17,739,000 (2002 - \$16,858,000).

(b) Legislative Assembly Retirement Allowances Plan

The Legislative Assembly Retirement Allowances Plan is a contributory defined benefit pension plan. In addition to retirement allowances, the plan also contains a provision for payment of lump sum death and severance allowances. These benefits are based on service and/or earnings. The Government administers the Legislative Assembly Retirement Allowances Fund, and reports the Fund as a trust asset external to the Government of Yukon reporting entity (Note 18).

The *Legislative Assembly Retirement Allowances Act* (Yukon) stipulates that actuarial valuations of the obligation for these benefits must be performed at least triennially. An actuarial valuation is based on a number of assumptions about future events, such as inflation rates, interest rates, salary increases and member turnover and mortality. These assumptions reflect the best estimates of expected long-term rates and short-term forecasts accepted by the Members' Services Board of the Legislative Assembly. The last completed actuarial valuation was as at March 31, 2002. The accrued benefit obligation shown for 2003 is based on an extrapolation of that 2002 valuation.

(c) Territorial Court Judiciary Pension Plan

The *Territorial Court Judiciary Pension Plan Act* (Yukon) was enacted in May 2001, with an effective date of September 18, 1998. The Territorial Court Judiciary Pension Plan is a non-contributory defined benefit pension plan and the Government is not required to maintain a fund for this plan.

The actuarial report was prepared at March 31, 2002. The accrued benefit obligation shown for 2003 is based on an extrapolation of that 2002 valuation.

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The following presents the financial position of the Government's pension plans at March 31, 2003. Pension plan assets are valued at the lower of cost and market.

	Legislative Assembly Retirement Allowance Plan	Territorial Court Judiciary Pension Plan
	(thousands of dollars)	
Accrued benefit obligation		
Obligation at beginning of year	\$ 15,981	\$ 1,871
Current service costs	718	109
Interest cost on benefit obligation	959	134
Benefits paid	(608)	-
Accrued benefit obligation at end of year	<u>\$ 17,050</u>	<u>\$ 2,114</u>
Pension plan assets		
Value at beginning of year	\$ 13,498	\$ -
Actual return on plan assets	964	-
Government contributions	3,143	-
Member contributions	63	-
Benefits paid	(608)	-
Value at end of year	<u>\$ 17,060</u>	<u>\$ -</u>
Funded status – plan surplus (deficit)	\$ 10	\$ (2,114)
Unamortized net actuarial (gain) loss	(146)	23
Accrued benefit liability	<u>\$ (136)</u>	<u>\$ (2,091)</u>
Net pension expense		
Current service costs (net of member contributions)	\$ 647	\$ 109
Interest cost on benefit obligation	959	134
Expected return on plan assets	(810)	-
Amortization of net actuarial gain	-	(2)
	<u>\$ 796</u>	<u>\$ 241</u>
Assumptions		
Expected long-term rate of return on assets	6.0%	N/A
Discount rate on projected benefit obligation	6.0%	7.0%
Inflation	3.0%	3.5%
Rate of compensation increase	* 3.0%	** 3.5%
Amortization period (expected average remaining service life)	8 years	4 years

* Annual rates of increase in indemnities and expense allowances. No salary increases are assumed.

** Increase to \$178,000 on April 1, 2003, assumed rate thereafter.

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18. **Trust assets**

The Government administers trust accounts on behalf of third parties which are not included in the Government's assets.

The largest such trust account, the Compensation Fund (Yukon) has a fiscal year end of December 31. Details of the assets of the Compensation Fund (Yukon), principally investments, are available from its financial statements, which are reproduced in Section III of the Public Accounts of the Government. The remaining trust assets are invested primarily in short-term and long-term bonds.

Investments are valued at the lower of cost and market. Any other assets held under administration such as property, securities and valuables are reflected in trust accounts only upon conversion to cash.

	2003	2002
	(thousands of dollars)	
Compensation Fund (Yukon)	\$ 133,499	\$ 140,374
Legislative Assembly Retirement Allowances (Note 17(b))	17,060	13,498
Lottery Commission	2,743	2,799
Land Title Office – Assurance Fund	2,135	2,006
Crime Prevention and Victim Services	2,080	2,244
Historic Resources Trust Fund	1,069	1,027
Public Administrator	783	775
Public Service Group Insurance Benefit	367	352
Other	1,416	1,300
	\$ 161,152	\$ 164,375

19. **Main Estimates**

The Main Estimates comparative figures are from the Main Estimates approved in the Legislative Assembly in 2002. These figures do not reflect changes arising from Supplementary Estimates approved later in the year by the Legislative Assembly.

20. **Commitments**

At March 31, 2003 the Government had outstanding contractual obligations of \$29.2 million (2002 - \$37.5 million) for major capital projects. At that date, the estimated expenditures on these capital projects over the next three years were \$85.3 million (2002 - \$139.6 million), of which \$43.3 million (2002 - \$69.3 million) is 100% recoverable.

At March 31, 2003 the Government had annual building lease commitments of \$6.9 million consisting of \$5.7 million for rental costs and \$1.2 million for operating costs. These leases are generally for three year terms.

The Government entered into a twenty year policing services contract with the RCMP in 1992. The estimated expenditure under this contract for 2003/2004 is \$10.9 million.

In February 2003, the Government entered into a three-year air medical evacuation contract with Alkan Air Ltd. At March 31, 2003 the Government's minimum obligation under this contract was \$4.2 million with an estimated expenditure for 2003/2004 of \$2.5 million.

GOVERNMENT OF YUKON

Notes to Consolidated Financial Statements March 31, 2003

21. Overexpenditure

During the year, two (2002 - two) departments exceeded their votes with an aggregate total of \$7,949,000 (2002 - \$803,000). Overexpenditure of a vote contravenes subsection 17(2) of the *Financial Administration Act* (Yukon) which specifies that "a vote does not authorize any payment to be made in excess of the amount specified in the vote".

The votes that were overexpended are as follows:

	(thousands of dollars)
Operations and maintenance	
Public Service Commission	\$ 7,945
Office of the Ombudsman	4

22. Transfer of programs from Canada

On October 29, 2001, Canada and the Government signed the Yukon Northern Affairs Program Devolution Transfer Agreement, in which both parties agreed to transfer from Canada to the Government the resources and responsibilities associated with the Northern Affairs Program of the Department of Indian Affairs and Northern Development. The programs and responsibilities being transferred include land, water, forestry and mineral resources. The effective date of the transfer is April 1, 2003. As of that effective date, Canada is to provide ongoing funding estimated at \$33.7 million to the Government as well as one-time and transitional funding of, at a minimum, \$23.2 million over the five years beginning the fiscal year 2003/2004.

23. Land claims

The Government, with Canada and the various Yukon First Nations, is engaged in the negotiation of aboriginal land claims (final) and self-government agreements. On February 14, 1995, Federal and Yukon legislation came into force giving effect to four Yukon First Nation Final Agreements, which incorporated the provisions of the Umbrella Final Agreement (UFA) and specific provisions for each First Nation, and four Self-Government Agreements. The UFA is a framework document signed by the Council for Yukon Indians, Canada, and the Government. Two more Yukon First Nation Final and Self-Government Agreements came into effect on October 1, 1997, another came into effect on September 15, 1998, and the latest came into effect on April 1, 2002. Negotiations are proceeding with the remaining six First Nations on an individual basis. As well, the Government, with Canada, has engaged in land claims negotiations with one transboundary First Nation and anticipates further transboundary negotiations. Any settlement of these claims will not result in a liability to the Government as they are to be funded by Canada.

The Government signed a bilateral funding agreement with Canada on June 24, 1993 that provides for funding towards the Government's additional implementation costs. Costs funded by this agreement include boards and councils established under the Yukon First Nation Final Agreements and implementation projects and activities. The Government expended \$3.6 million during the year (2002 - \$3.6 million) with cumulative expenditures of approximately \$23.3 million (2002 - \$19.7 million), of which \$22.5 million (2002 - \$19.0 million) was funded by Canada.

GOVERNMENT OF YUKON

Notes to Consolidated Financial Statements
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24. **Contingencies**

In the normal course of operations, the Government is subject to legal claims. At March 31, 2003 the Government estimated the total claimed amount to be about \$2.7 million (2002 - \$1.9 million). No liability has been admitted and no provision for claims is included in these financial statements.

25. **Environmental liabilities**

The Government recognizes that there could be a liability for restoration of the environment on the land that is administered and controlled by the Government (Commissioner's Land).

The Government does not actively search for contaminated sites, and is only aware of those that are brought to its attention. Consequently, there may be other as yet unidentified sites.

The Government has been informed of 37 sites on Commissioner's Land where environmental liabilities may exist. Of these, 12 sites are airports and are subject to the airport transfer agreements between the Government and Transport Canada that include remediation of contamination by Transport Canada; the Government is responsible for assessing and identifying areas of potential contamination. 20 sites are highway maintenance camps; these sites are either being assessed or awaiting assessment dependent on funding being available. There are also five other sites. One of these other sites has been formally designated as contaminated under the *Environment Act* (Yukon) and the *Contaminated Sites Regulation*. The Government is not a Responsible Party for this site but may incur some future environmental liability as the landowner.

In those cases where the future cost of remediating sites is quantifiable, an estimated liability is accrued. As at March 31, 2003 these costs are not quantifiable, so no liability has been accrued.

Pursuant to the Yukon Northern Affairs Program Devolution Transfer Agreement which was made on October 29, 2001 (Note 22), effective April 1, 2003 the Government assumed administration and regulatory responsibility for nearly 900 waste sites. Canada, however, is to continue assuming the financial responsibility for a majority of those sites that were contaminated while under Canada's control. The Government will assume some potential liability for six sites for which Canada is released from further financial liability, and seven sites where the Government will remediate the sites and then seek reimbursement from Canada under the terms of the Agreement. As at March 31, 2003 the potential liability, if any, for these 13 sites has not been assessed.

GOVERNMENT OF YUKON

Notes to Consolidated Financial Statements
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26. **Related parties**

Related party transactions not disclosed elsewhere in the financial statements are as follows:

	<u>2003</u>	<u>2002</u>
	(thousands of dollars)	
Transfer payments		
Yukon Hospital Corporation	\$ 21,851	\$ 22,749
Yukon College	13,811	14,017
Yukon Legal Services Society	1,256	1,389
Yukon Arts Centre Corporation	656	568
Yukon Human Rights Commission	374	480
	<u>\$ 37,948</u>	<u>\$ 39,203</u>

27. **Comparative figures**

Certain comparative figures for 2002 have been reclassified to conform with the 2003 presentation.

GOVERNMENT OF YUKON

Schedule A

Consolidated Schedule of Revenues by Source
for the year ended March 31, 2003

	2003		2002
	Main		
	Estimates (Note 19)	Actual	Actual
	(thousands of dollars)		
Grant from Canada (Note 15)	\$ 346,004	\$ 381,821	\$ 348,646
Taxes and general revenues			
Income taxes	34,735	36,248	38,080
Other taxes	16,936	16,225	15,195
Licences, permits and fees	6,140	6,823	5,390
Oil and gas resource revenue	6,013	3,828	4,361
Liquor taxes	2,220	2,418	2,340
Aviation operations	746	728	809
Interest - bank and other	705	650	1,370
Other revenues	193	598	742
Fines	276	436	268
Gain on sale of lots	-	288	152
	67,964	68,242	68,707
Transfer payments from Canada			
Canada Health and Social Transfer	21,730	19,889	25,831
Investment income			
Yukon Development Corporation	-	4,654	5,567
Yukon Liquor Corporation	4,796	4,471	4,723
Yukon Government Fund Limited	-	224	128
	4,796	9,349	10,418
	\$ 440,494	\$ 479,301	\$ 453,602

GOVERNMENT OF YUKON

Schedule B

Consolidated Schedule of Recoveries by Function
for the year ended March 31, 2003

	2003		2002
	Main		
	Estimates (Note 19)	Actual	Actual
	(thousands of dollars)		
Operations and maintenance			
Health and social services	\$ 15,378	\$ 14,153	\$ 14,805
Community and transportation	10,726	10,168	10,272
General government	6,663	6,419	4,271
Education	2,464	2,505	2,460
Justice	1,514	1,471	915
Natural resources	1,063	1,457	1,033
Business, tourism and culture	240	505	513
Interest	3,023	3,306	3,097
	\$ 41,071	\$ 39,984	\$ 37,366
Capital			
Community and transportation	\$ 30,667	\$ 30,234	\$ 22,490
General government	1,358	1,054	1,774
Natural resources	1,136	1,004	963
Health and Social Services	650	697	1,350
Business, tourism and culture	-	277	103
Education	100	112	610
Justice	-	111	56
	\$ 33,911	\$ 33,489	\$ 27,346

GOVERNMENT OF YUKON

Schedule C

Consolidated Schedule of Expenditures by Function
for the year ended March 31, 2003

	2003		2002
	Main		
	Estimates (Note 19)	Actual (Note 16)	Actual
	(thousands of dollars)		
Operations and maintenance			
Health and social services	\$ 137,435	\$ 142,572	\$ 130,085
Education	92,328	92,083	90,338
Community and transportation	80,862	77,148	77,522
General government	62,211	71,089	58,972
Justice	34,003	33,935	35,321
Natural resources	22,083	22,358	21,980
Business, tourism and culture	14,401	14,662	14,625
Interest	3,376	2,647	2,740
	\$ 446,699	\$ 456,494	\$ 431,583
Capital			
Community and transportation	\$ 59,309	\$ 61,489	\$ 52,232
General government	18,472	9,752	11,516
Education	10,404	9,672	14,701
Natural resources	6,337	5,734	6,673
Health and Social Services	2,677	4,606	12,345
Business, tourism and culture	4,027	3,619	4,662
Justice	3,521	1,626	1,401
	\$ 104,747	\$ 96,498	\$ 103,530