

YUKON LIQUOR CORPORATION

FINANCIAL STATEMENTS

March 31, 2007

(audited)

This page intentionally left blank.



Liquor Corporation
9031 Quartz Road
Whitehorse, Yukon Y1A 4P9
(867) 667-5245 FAX (867) 393-6306
Email: yukon.liquor@gov.yk.ca

YUKON LIQUOR CORPORATION MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of the Yukon Liquor Corporation is responsible for establishing and maintaining a system of books, records, internal controls and management practices designed to provide reasonable assurance that reliable financial information is produced; the assets of the Corporation are safeguarded and controlled; the transactions of the Corporation are in accordance with the relevant legislation, regulations and by-laws of the Corporation; the resources of the Corporation are managed efficiently and economically; and the operations of the Corporation are carried out effectively.

Management is also responsible for the integrity and objectivity of the financial statements of the Corporation. The financial statements as at March 31, 2007, which include amounts based on management's best estimates as determined through experience and judgement, are prepared in accordance with Canadian generally accepted accounting principles.

These financial statements have been independently audited by the Corporation's external auditor, the Auditor General of Canada, and her report is included in this report.

Eric Magnuson
A/President

Temes Cherinet
Director, Shared Services, Finance, Systems & Admin

July 11, 2007



AUDITOR'S REPORT

To the Minister responsible for the Yukon Liquor Corporation

I have audited the balance sheet of the Yukon Liquor Corporation as at March 31, 2007 and the statements of income and equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Liquor Act*, I report that, in my opinion, these principles have been applied, after giving retroactive effect to the change in the method of accounting for services received and provided without charge as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept and the financial statements are in agreement therewith, and the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Liquor Act* and regulations, the *Liquor Tax Act*, the *Financial Administration Act* and regulations and the by-laws of the Corporation.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Vancouver, Canada
July 11, 2007

YUKON LIQUOR CORPORATION
BALANCE SHEET
as at March 31

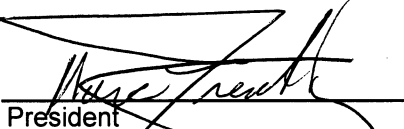
	<u>ASSETS</u>	
	<u>2007</u>	<u>2006</u>
	(in thousands)	
Current		
Cash	\$ 1 409	\$ 664
Accounts receivable (Note 4)	80	59
Inventories	<u>2 138</u>	<u>2 327</u>
	<u>3 627</u>	<u>3 050</u>
Property, plant and equipment (Note 5 and 7)	<u>2 051</u>	<u>2 374</u>
	<u>\$ 5 678</u>	<u>\$ 5 424</u>

<u>LIABILITIES & EQUITY</u>		
Current		
Accounts payable and accrued liabilities (Note 4)	\$ 977	\$ 1 186
Due to the Government of the Yukon (Note 6)	1 929	1 183
Deferred revenue	<u>88</u>	<u>89</u>
	2 994	2 458
Non-pension benefit liability (Note 9)	<u>633</u>	<u>592</u>
	<u>3 627</u>	<u>3 050</u>
Equity (Note 7)	<u>2 051</u>	<u>2 374</u>
	<u>\$ 5 678</u>	<u>\$ 5 424</u>

Commitments (Note 10)

The accompanying notes are an integral part of the financial statements.

Approved by Management:



President



A/Director, Shared Services, Finance, Systems & Admin

YUKON LIQUOR CORPORATION
STATEMENT OF INCOME AND EQUITY
for the year ended March 31

	2007	2006
	(in thousands)	
		(Restated - Note 3)
Sales		
Beer	\$ 13 234	\$ 12 334
Spirits	7 571	7 038
Wine	4 315	3 817
	25 120	23 189
 Cost of goods sold	 12 577	 11 818
 Gross profit	 12 543	 11 371
 Expenses		
Salaries and benefits	3 364	3 125
Rent, utilities and maintenance	1 445	1 355
Shared corporate services costs	898	906
Services provided to Government of Yukon without charge (note 8c)	452	443
Amortization	394	349
Bank expenses	252	226
Travel and communications	222	192
General and office supplies	160	129
Other	110	108
	7 297	6 833
 Operating income	 5 246	 4 538
 Other income		
Fees, permits and licences	112	109
Miscellaneous	10	20
Services received from Government of Yukon without charge (note 8c)	551	551
	673	680
 Net Income (note 5 and 7)	 \$ 5 919	 \$ 5 218
 Equity, beginning of year	 \$ 2 374	 \$ 2 364
Funds repayable to Government of Yukon	(5 919)	(5 218)
Add: property, plant and equipment additions	71	425
Less: disposal of land	-	(66)
Less: amortization	(394)	(349)
Equity, end of year (note 7)	\$ 2 051	\$ 2 374

The accompanying notes are an integral part of the financial statements.

YUKON LIQUOR CORPORATION
STATEMENT OF CASH FLOWS
for the year ended March 31

	2007	2006
	(in thousands)	
Operating activities		
Cash receipts:		
Sales - spirits, wine and beer	\$ 25 119	\$ 23 189
Annual licence fees and other	98	106
Cash disbursements:		
Purchases	(12 387)	(12 458)
Salary, wages and benefits	(3 759)	(3 493)
General and administrative expenses	(3 214)	(3 070)
Net cash available from operating activities	5 857	4 274
Investing activities		
Cash receipts:		
Disposal of land	-	66
Cash disbursements:		
Acquisition of property, plant and equipment	(71)	(425)
Net cash used in investing activities	(71)	(359)
Financing activities		
Cash disbursements:		
Remittance of income to the Government of the Yukon	(5 041)	(4 001)
Net cash used in financing activities	(5 041)	(4 001)
Increase / (decrease) in cash for the year	745	(86)
Cash, beginning of year	664	750
Cash, end of year	\$ 1 409	\$ 664

The accompanying notes are an integral part of the financial statements.

YUKON LIQUOR CORPORATION

Notes to the Financial Statements

March 31, 2007

1. Authority and Operations

The Corporation, established in 1977 under the *Liquor Act*, is responsible for the purchase, distribution and sale of liquor within the Yukon. It is responsible for controlling the sale of liquor through licensed outlets and enforcing all matters related to the *Act*.

In accordance with the *Liquor Act*, the net income for the year, before amortization, less amounts expended on property, plant and equipment, is remitted to the Government of the Yukon on a monthly basis.

The Corporation is required by the *Liquor Tax Act* to collect liquor taxes on behalf of the Government of the Yukon and to remit these taxes on a monthly basis. The current rate is 12%, and is applied to all selling prices.

In accordance with the provisions of the *Beverage Container Regulations* under the *Environment Act*, the Corporation collects various beverage container deposits and recycling surcharges on the sale of its products. These amounts are remitted to the Recycling Fund on a monthly basis after deducting deposit refunds paid and fees earned under the program.

As a territorial corporation of the Yukon Government, the Corporation is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*.

2. Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

Inventories

Inventories are comprised of alcoholic beverages for resale and are valued at the lower of landed cost at Whitehorse, or market.

Revenue recognition

Revenue is recognized when the sale of products is made to customers.

Expense recognition

Expenses are recognized as incurred, on an accrual basis, in the period to which they relate.

Amortization

Amortization of property, plant and equipment owned by the Corporation is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Buildings	20 years
Furniture and office equipment	5 years
Equipment	5 years
Systems equipment and software	5 years
Leasehold improvements	4 years or remaining term of lease

Employee future benefits

Non-pension benefits

Under the conditions of employment, employees may qualify and earn employment benefits for vacation, sick, compensatory and personal leave, travel bonus, and severance benefits. The benefit obligation was determined on an actuarial basis. The costs of these benefits are accrued as employees render the services required to earn them. The obligation for vacation leave, sick leave, and severance benefits were calculated using the projected benefit method pro-rated on service. The remainder was calculated assuming all employees would receive the benefits on valuation date.

YUKON LIQUOR CORPORATION

Notes to the Financial Statements

March 31, 2007

2. Accounting Policies (continued)

Pension benefits

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The Corporation's contribution to the Plan reflects the full cost of the employer contributions. This amount is currently based on a multiple of the employee's required contributions, and may change from time to time depending on the experience of the Plan. These contributions represent the total pension obligations of the Corporation and are expensed during the year in which the services are rendered. The Corporation is not currently required to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

Services provided without charge

As described in Note 3, the Corporation records in the Statement of Income and Equity services it receives or provides without charge to the Government of Yukon in the normal course of operations, at carrying amount. These services include the following:

- services, primarily accommodation, provided by the Government of the Yukon;
- services provided by the Corporation to the Government in its capacity of Territorial Agent in localities outside of Whitehorse.

Use of estimates

The preparation of the financial statements in accordance with Canadian generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting year. Estimates are used when accounting for matters such as amortization and non-pension benefit liability. Actual results could differ materially from these estimates.

3. Change in Accounting Policy

The Corporation has chosen to recognize services received from and provided to the Government of Yukon at carrying amount (see note 8c). Recording the value of services provided without charge both by and to the Government recognizes and discloses the full cost of operations of the Corporation.

There is no effect on the 2007 net operating results of the Corporation as a result of this change. However, individual financial statement items have been affected as follows:

	2007	2006
Other income – Government of Yukon – services provided without charge: increased	\$ (551,357)	\$ (550,594)
Expenses – Government of Yukon services received without charge: increased	452,201	442,761
Expenses – Salaries and benefits: decreased	(394,414)	(368,034)
Expenses – Rent, utilities and maintenance: increased	483,079	465,794
Expenses – Travel and communications: decreased	(4,403)	(4,153)
Expenses – General and office supplies: increased	14,894	14,226

This change in accounting policy has been applied retroactively and certain prior year comparative revenue and expense figures have been restated.

YUKON LIQUOR CORPORATION

Notes to the Financial Statements

March 31, 2007

4. Fair Values of Financial Instruments

Accounts receivable, accounts payable and accrued liabilities and the amount due to the Government of the Yukon are incurred in the normal course of business. All are due on demand and are non-interest bearing. The carrying amounts of each approximate fair values because of their short maturity.

5. Property, Plant and Equipment

Property, plant and equipment purchased by the Corporation after March 31, 1990 are as follows:

	2007		2006	
	Cost	Accumulated Amortization	Net book Value	Net book Value
	(in thousands)			
Land	\$ 202	\$ -	\$ 202	\$ 202
Buildings	4,790	3,413	1,377	1,600
Furniture and office equipment	92	85	7	14
Equipment	360	316	44	27
Systems equipment and software	543	202	341	394
Leasehold improvements	357	277	80	137
	\$ 6,344	\$ 4,293	\$ 2,051	\$ 2,374

6. Due to the Government of the Yukon

	2007	2006
	(in thousands)	
Reimbursements due for salaries to employees, shared services costs, and other costs paid on behalf of the Corporation (Note 8d)	368	385
Adjusted net income (Note 8a)	1,293	92
Liquor tax (Note 8b)	198	23
Net remittances due to the Recycling Fund	70	683
	\$ 1,929	\$ 1,183

In accordance with the provisions of the *Beverage Container Regulations* under the *Environmental Act*, the Corporation collects various beverage container deposits and recycling surcharges on the sale of its products. These amounts are remitted to the Recycling Fund payable to the Government of Yukon on a monthly basis after deducting deposit refunds paid and fees earned under the program.

7. Equity

This amount represents the sum of the net book value of property, plant and equipment purchased by the Corporation after March 31, 1990, \$2,051,000 (2006 - \$2,374,000) which the Government of the Yukon has provided to the Yukon Liquor Corporation on a cumulative basis.

YUKON LIQUOR CORPORATION
Notes to the Financial Statements
March 31, 2007

8. Related party transactions

a) **Adjusted Net Income**

Calculation of adjusted net income due to the Government of the Yukon for the year (Note 1):

	2007	2006
	(in thousands)	
Balance due (remitted in advance) at the beginning of the year	\$ 92	\$ (1,115)
Net income	5,919	5,218
Capital expenditures	(71)	(425)
Property, plant and equipment amortization	394	349
Disposal of land	-	66
Adjusted net income due to the Government of the Yukon	6,242	5,208
Less: remitted during the year	(5,041)	(4,001)
Balance due at the end of the year	\$ 1,293	\$ 92

b) **Liquor tax**

Liquor tax collected and due to the Government of the Yukon for the year (Note 1):

	2007	2006
	(in thousands)	
Balance due at the beginning of the year	\$ 23	\$ 190
Liquor tax collected during the year	3,022	2,783
Less: remitted during the year	(2,847)	(2,950)
Balance due at the end of the year	\$ 198	\$ 23

c) **Other transactions**

The value of services provided without charge by the Government of the Yukon to the Corporation is estimated to be \$551,357 (2006 - \$550,594). The value of services provided without charge by the Corporation to the Government is estimated to be \$452,201 (2006 - \$442,761). These transactions are included in the financial statements of the Corporation.

The employees of the Corporation are paid by the Government of the Yukon. The Corporation reimburses the Government on a monthly basis for salaries and benefits expenses paid.

d) **Shared services costs**

The Corporation is part of a Shared Services arrangement with two other government organizations which consolidates functions such as finance and administration, policy and human resources services. The amount charged by the Government of the Yukon to the Corporation for shared services for the year was \$897,607 (2006 - \$905,869). These transactions are in the normal course of operations and are measured at the carrying amount, which is the amount of consideration established and agreed to by the related parties.

YUKON LIQUOR CORPORATION

Notes to the Financial Statements

March 31, 2007

9. Employee future benefits

Pension Plan

The Corporation and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. Contributions during the year were as follows:

	<u>2007</u>	<u>2006</u>
	(in thousands)	
Corporation's Contributions	\$264	\$240
Employees' Contributions	124	117

Non-pension benefits

The Corporation provides non-pension benefits to its employees based on years of service and final salary. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Extended health care and insurance plan employee future benefit liabilities are paid by and accrued in the financial statements of the Government of Yukon. The results measured at the balance sheet date are summarized as follows:

	<u>2007</u>	<u>2006</u>
	(in thousands)	
Accrued benefit obligation, beginning of year	\$698	\$691
Cost for the year	142	121
Benefits paid during the year	<u>(67)</u>	<u>(114)</u>
Accrued benefit obligation, end of year	<u>\$773</u>	<u>\$698</u>
Short-term portion (vacation)	\$139	\$106
Long-term portion	<u>634</u>	<u>592</u>
	<u>\$773</u>	<u>\$698</u>
The significant actuarial assumptions were:		
Discount rate	5.75%	5.75%
Salary escalation rate	2.50%	3.0% on Jan. 1, 2006 2.5% per annum thereafter

The most recent actuarial valuation made for this non-pension benefit plan was of March 31, 2005. The next required valuation would be as of March 31, 2008.

10. Commitments

The Corporation has the following operating leases with commitments for annual rents of leased premises due as follows:

<u>Fiscal</u>	<u>Whitehorse Store</u>	<u>Other Retail Stores</u>	<u>Total</u>
2008	\$ 213,660	\$ 117,533	\$ 331,193
2009	213,660		213,660
2010	213,660		213,660
2011	213,660		213,660
2012	17,805		17,805
Total	<u>\$ 872,445</u>	<u>\$ 117,533</u>	<u>\$ 989,978</u>

The Corporation's buildings are self insured with the Government of Yukon.

YUKON LIQUOR CORPORATION

Notes to the Financial Statements

March 31, 2007

11. Reclassification of Comparative Figures

Certain 2006 comparative figures have been reclassified to conform to the presentation of the 2007 financial statements.