

SECTION I
GOVERNMENT OF YUKON
FINANCIAL STATEMENTS
(unaudited)

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GOVERNMENT OF YUKON

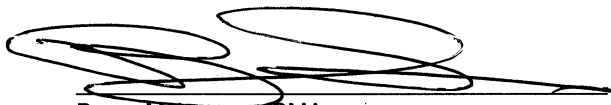
Statement of Financial Position
as at March 31, 2006

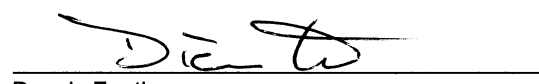
	2006	2005
	(thousands of dollars)	
Financial assets		
Cash and cash equivalents (Note 3)	\$ 130,784	\$ 52,120
Temporary investments (Note 4)	4,971	-
Due from Canada (Note 5)	55,869	70,513
Accounts receivable (Note 6)	9,455	12,000
Advances to Territorial corporations (Note 7)	30,436	33,807
Loans receivable (Note 8)	23,643	22,236
Land held for sale (Note 9)	12,046	18,219
	<u>267,204</u>	<u>208,895</u>
Liabilities		
Due to Canada (Note 5)	12,436	11,870
Accounts payable and accrued liabilities (Note 10)	59,640	54,921
Deferred revenues	3,549	2,715
Post-employment benefits (Note 11)	45,730	44,398
Retirement benefits (Note 12)	35,750	32,633
Long-term debt (Note 13)	3,726	3,726
Capital lease obligations (Note 14)	6,831	10,393
	<u>167,662</u>	<u>160,656</u>
Net financial resources	<u>99,542</u>	<u>48,239</u>
Non-financial assets		
Tangible capital assets (Note 16)	838,566	787,820
Less deferred capital contributions (Note 17)	(455,627)	(428,529)
Inventories of supplies	4,220	4,140
Prepaid expenses	1,671	1,761
	<u>388,830</u>	<u>365,192</u>
Accumulated surplus	<u>\$ 488,372</u>	<u>\$ 413,431</u>

Contingencies, contractual obligations and guarantees
(Notes 9, 20, 22, 23, 24, 25 and 27)

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

Approved:


Bruce McLennan, CMA
Deputy Minister of Finance


Dennis Fentie
Minister of Finance

GOVERNMENT OF YUKON

**Statement of Operations
for the year ended March 31, 2006**

	2006		2005
	Main		
	Estimates (Note 1(b))	Actual	Actual
	(thousands of dollars)		
Revenues (Schedule A)			
From Canada			
Formula Financing grant	\$ 494,140	\$ 494,140	\$ 470,996
Other grants	46,065	89,993	34,790
Contributions and service agreements	53,806	39,082	46,975
Taxes and general revenues	86,457	87,765	81,082
Funding and service agreements with other parties	16,660	17,775	12,513
Amortization of deferred capital contributions	14,222	13,522	13,102
	<u>711,350</u>	<u>742,277</u>	<u>659,458</u>
Expenses (Note 18 and Schedule B)	690,230	668,482	654,819
Recovery of prior years' expenses	-	1,146	587
Surplus for the year	<u>\$ 21,120</u>	74,941	5,226
Accumulated surplus at beginning of year		<u>413,431</u>	<u>408,205</u>
Accumulated surplus at end of year		<u>\$ 488,372</u>	<u>\$ 413,431</u>

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

GOVERNMENT OF YUKON

Statement of Change in Net Financial Resources
for the year ended March 31, 2006

	2006		2005
	Main Estimates (Note 1(b))	Actual	Actual
	(thousands of dollars)		
Surplus for the year	\$ 21,120	\$ 74,941	\$ 5,226
Effect of change in tangible capital assets			
Acquisitions	(85,251)	(86,429)	(47,425)
Capital contributions received	26,700	41,299	25,912
Amortization of tangible capital assets	30,098	31,958	30,583
Amortization of deferred capital contributions	(14,222)	(13,522)	(13,102)
(Gain) loss on disposal of tangible capital assets	-	(608)	7
Proceeds on disposal of tangible capital assets	-	3,252	31
Write-down of tangible capital assets	-	498	-
Write-down of deferred capital contributions	-	(96)	-
	(42,675)	(23,648)	(3,994)
Effect of change in other non-financial assets			
Increase in inventories of supplies	-	(80)	(500)
Decrease (increase) in prepaid expenses	-	90	(802)
	-	10	(1,302)
Increase (decrease) in net financial resources	<u>\$ (21,555)</u>	<u>51,303</u>	<u>(70)</u>
Net financial resources at beginning of year		48,239	48,309
Net financial resources at end of year		<u>\$ 99,542</u>	<u>\$ 48,239</u>

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

GOVERNMENT OF YUKON
Statement of Cash Flows
for the year ended March 31, 2006

	2006	2005
	(thousands of dollars)	
Operating transactions		
Cash received from:		
Canada	\$ 640,605	\$ 543,229
Taxes and general revenues	85,040	86,664
Funding and service agreements with other parties	20,795	11,694
	746,440	641,587
Cash paid for:		
Salary, wages and benefits	267,846	245,501
Transfer payments	140,522	140,751
Other expenses	212,954	217,983
	621,322	604,235
Cash provided by operating transactions	125,118	37,352
Capital transactions		
Acquisition of tangible capital assets	(81,513)	(45,602)
Contributions received for acquisition	38,003	20,321
Proceeds on sale of tangible capital assets	595	31
Cash used for capital transactions	(42,915)	(25,250)
Investing transactions		
Increase in temporary investments	(4,971)	-
Investment in land held for sale	(6,977)	(5,399)
Proceeds from sale of land held for sale	9,166	6,329
Repayment of advances from Territorial corporations	-	450
Loans advanced	(1,078)	(1,404)
Loans repaid	1,227	1,623
Cash (used for) provided by investing transactions	(2,633)	1,599
Financing transactions		
Repayment of capital lease obligations	(906)	(913)
Cash used for financing transactions	(906)	(913)
Increase in cash and cash equivalents	78,664	12,788
Cash and cash equivalents at beginning of year	52,120	39,332
Cash and cash equivalents at end of year (Note 3)	\$ 130,784	\$ 52,120
Supplemental information		
Interest paid in the year	\$ 1,336	\$ 1,501
Interest received in the year	4,486	1,660

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

GOVERNMENT OF YUKON

Notes to Financial Statements March 31, 2006

1. **Authority and operations**

(a) Authority

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.

(b) Main Estimates

The Main Estimates comparative figures are from the Main Estimates approved in the Legislative Assembly in 2005. These figures do not reflect changes arising from the Supplementary Estimates approved later in the year by the Legislative Assembly.

(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.

2. **Significant accounting policies**

(a) Financial statements

These financial statements are prepared on a non-consolidated basis for the purpose of determining the financial resources realistically available to the Government to meet its program responsibilities.

The Government also prepares a set of consolidated financial statements following the recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants.

GOVERNMENT OF YUKON

Notes to Financial Statements March 31, 2006

(b) Basis of accounting

Revenues

Revenues are recorded on an accrual basis.

Grants from Canada are recognized as revenues when entitlement for the transfer occurs. The Government receives a Formula Financing grant from Canada pursuant to Bill C-24, *An Act to amend the Federal-Provincial Fiscal Arrangements Act and to make consequential amendments to other Acts (fiscal equalization payments to the provinces and funding to the territories)* (Canada). The legislation specifies the exact entitlement amount for 2004/2005 and 2005/2006. For future years, Yukon's Formula Financing grant is to be determined as a proportion of the aggregate quantum for the three territories specified in the legislation. Health and social transfers are received in accordance with the *Federal-Provincial Fiscal Arrangements Act* (Canada). Adjustments for health and social transfer revenues are made in the year they are known.

The Government receives funds from Canada and other sources under various cost-sharing agreements including reconstruction of the Alaska Highway, social assistance and occupational training. Revenues are recognized in the year in which the related expenses are incurred. Any adjustments upon finalization are reflected in the accounts in the year they are identified.

Income taxes, levied under the *Income Tax Act* (Yukon), are collected by Canada on behalf of the Government under a tax collection agreement and are remitted to the Government monthly. The remittances are based on Canada's Department of Finance's best estimates for the taxation year, which are periodically adjusted until the income tax assessments for the year are final. The Government recognizes income tax revenues based on the estimates made by Canada, adjusted for known factors. Any adjustments upon finalization are reflected in the accounts in the year they are identified.

Fuel and tobacco taxes are levied under the authority of the *Fuel Oil Tax Act* (Yukon) and the *Tobacco Tax Act* (Yukon). Revenues are recognized based on the statements received from collectors and estimates. Adjustments from reassessments are recorded in revenue in the year they are identified.

Expenses

Expenses are recorded on an accrual basis. Transfer payments are recorded as expenses when paid or earlier if the terms of a contractual transfer agreement have been met.

Recovery of prior years' expenses 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 the current year.

Assets

Financial assets

Loans receivable are stated at the lower of principal amounts and net recoverable value. 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 Financial Statements March 31, 2006

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.

Non-financial assets

The costs of acquiring land, buildings, equipment and other capital property are capitalized as tangible capital assets and are amortized to expense over the estimated useful lives of the assets.

Inventories of supplies 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 expensed at the time of acquisition.

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 motor vehicle licence fees and other items for the following fiscal year.

Capital lease obligations are recorded with a corresponding asset at the lower of the present value of the minimum lease payments, excluding the portion relating to executory costs, and the fair value of the asset. The present value is based on the Government's borrowing rate at the time the obligation is incurred.

(c) Tangible capital assets

Tangible capital assets are buildings, roads, equipment, and other items, whose useful life extends beyond the fiscal year and are intended to be used on an ongoing basis for delivering services. These assets are recorded at cost, or fair value if donated. For certain tangible capital assets that have previously been transferred from Canada or where the original costs are not readily available, estimated costs have been extrapolated back in time in a systematic and rational manner to approximate the appropriate transfer value of the assets at the time of transfer.

Transferred and cost-shared tangible capital assets are recorded upon acquisition with an offsetting deferred capital contribution that represents the value of the contribution. This deferred capital contribution is amortized as revenue on the same basis as the related asset is amortized. Tangible capital assets, when placed in service, are amortized on a straight-line basis over their estimated useful life.

The value of works of art, historical treasures and transferred crown lands are not recorded as tangible capital assets. The existence of historical treasures and the total estimated value of works of art are disclosed in Note 16 of these financial statements.

GOVERNMENT OF YUKON

**Notes to Financial Statements
March 31, 2006**

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.

Asset category	Threshold	Estimated useful life
Land	Nil	N/A
Land improvements and fixtures	\$50,000	up to 50 years
Buildings	\$50,000	40 - 50 years
Portable classrooms/housing trailers	\$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
Highways	\$250,000	30 to 50 years
Pavement	\$250,000	26 years
Bridges	\$250,000	30 to 50 years
Airport runways	\$50,000	26 to 50 years

Tangible capital assets under construction or development are reported as work-in-progress with no amortization until the asset is placed in service.

(d) Post-employment benefits

Post-employment benefits are expected to be provided after employment but before retirement to employees. These benefits include severance benefits, accumulated sick and vacation leave benefits that are paid in cash when employment is terminated. The Government recognizes the obligation for these benefits as a liability and uses an actuary to estimate the amount of the obligation. Expenses related to post-employment benefits are recognized in the period in which the employee's service is rendered and the benefit is earned. The accrued benefit liability for these plans is calculated as the accrued benefit obligation adjusted by unamortized actuarial gains or losses.

(e) Retirement benefits

The Government's employees participate in the Public Service Pension Plan administered by the Government of Canada. The Government accounts for contributions to this pension plan as a defined contribution plan; therefore, the Government's contributions represent its total pension obligations. Other retirement benefits include extended health care for retired employees who choose to participate in the plan and a life insurance plan for retirees who meet certain criteria. Liabilities for these benefits are valued on an actuarial basis.

Retirement benefits to Members of the Legislative Assembly and territorial court judges are valued on an actuarial basis. Actuarial valuations of these benefits are performed triennially using the projected benefit method prorated on services. Pension expenses for these two plans are recognized as members render services. Actuarial gains and losses are amortized on a straight-line basis over the estimated average remaining service lives of the participants. The accrued benefit liability for these plans is calculated as the accrued benefit obligation less plan assets, if any, adjusted by unamortized actuarial gains or losses.

GOVERNMENT OF YUKON

Notes to Financial Statements
March 31, 2006

(f) Environmental liabilities

Environmental liabilities consist of the estimated costs related to the remediation of environmentally contaminated sites. An environmental liability is accrued and an expense recorded based on management's best estimates when the contamination occurs or when the Government becomes aware of the contamination and is obligated or is likely obligated to incur such costs. If the likelihood of the Government's obligation to incur these costs is not determinable or if an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements (Note 25). Accrued environmental liabilities are reported as part of accrued liabilities.

(g) Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires the Government to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses 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 post-employment and retirement benefits, contingencies and revenue accruals such as Canada health and social transfer payments and corporate and personal income tax revenue.

3. Cash and cash equivalents

	<u>2006</u>	<u>2005</u>
	(thousands of dollars)	
Short-term investments	\$ 71,270	\$ 41,330
Funds held for the Government by trustees	44,654	-
Bank balances	14,795	10,725
Cash on hand	<u>65</u>	<u>65</u>
	<u>\$ 130,784</u>	<u>\$ 52,120</u>

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

In March 2006, Canada transferred \$40 million to a trust account held on behalf of the Government under the Northern Strategy initiative. As at March 31, 2006, the funds were held in trust in its entirety.

GOVERNMENT OF YUKON

Notes to Financial Statements
March 31, 2006

4. Temporary investments

	2006		2005	
	Market Value	Book Value	Market Value	Book Value
	(thousands of dollars)			
Commercial paper	\$ 4,971	\$ 4,975	\$ -	\$ -

Commercial paper have terms of maturity of less than one year from the date of acquisition. Temporary investments during the year had a weighted average effective yield of 3.6% per annum.

5. Due from/to Canada

	2006	2005
	(thousands of dollars)	
Due from Canada		
Cost-sharing agreements and projects delivered on behalf of Canada	\$ 49,507	\$ 55,677
Federal grant receivable	6,333	14,808
Other	29	28
	<u>\$ 55,869</u>	<u>\$ 70,513</u>
Due to Canada		
Public Service Pension Plan contribution payable	\$ 4,074	\$ 3,685
RCMP	3,367	3,381
Payroll deductions payable	3,305	3,140
Other	1,690	1,664
	<u>\$ 12,436</u>	<u>\$ 11,870</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.

6. Accounts receivable

	2006	2005
	(thousands of dollars)	
Taxes, interest and other revenue receivables	\$ 7,331	\$ 8,176
Less valuation allowances	<u>(1,144)</u>	<u>(1,025)</u>
	6,187	7,151
Due from Territorial corporations	<u>3,268</u>	<u>4,849</u>
	<u>\$ 9,455</u>	<u>\$ 12,000</u>

GOVERNMENT OF YUKON

Notes to Financial Statements
March 31, 2006

7. Advances to Territorial corporations

	<u>2006</u>	<u>2005</u>
	(thousands of dollars)	
Yukon Housing Corporation		
Working capital advances	<u>\$ 30,436</u>	<u>\$ 33,807</u>

The advances are interest free and have various repayment terms.

8. Loans receivable

	<u>2006</u>	<u>2005</u>
	(thousands of dollars)	
Debenture loans to municipalities, due in varying annual amounts to the year 2030, bearing interest rates ranging from 5.0% to 11.4%	\$ 8,114	\$ 8,871
Due from Yukon Housing Corporation for lands agreements, due in periodic instalments to the year 2011, bearing interest at 0.0%	7,375	5,895
Business development assistance loans, due in varying annual amounts with varying terms, bearing interest rates ranging from 0.0% to 13.6%	3,332	3,474
Local improvement loans, due in varying annual amounts to the year 2035, bearing interest rates ranging from 2.3% to 8.9%	3,105	2,957
Loan to Yukon Housing Corporation, due in periodic instalments to the year 2014, bearing interest at 0.0%	1,345	1,345
Agreements for sale of land, due in varying annual amounts over a three or five year term to the year 2011, bearing interest rates ranging from 4.8% to 8.5%	971	694
Domestic well loans, due in varying annual amounts to the year 2020, bearing interest rates ranging from 2.3% to 3.0%	738	110
Loan to Yukon Housing Corporation, due in periodic instalments to the year 2021, bearing interest at 0.0%	234	249
Energy infrastructure development loan due in periodic instalments bearing interest at 6.4%	205	205
Energy conservation loans due in varying annual amounts with varying rates of interest	157	168
Loan to Yukon Government Fund Limited, with no repayment terms, bearing interest at 0.0%	116	116
Less valuation allowances	<u>(2,049)</u>	<u>(1,848)</u>
	<u>\$ 23,643</u>	<u>\$ 22,236</u>

GOVERNMENT OF YUKON

Notes to Financial Statements
March 31, 2006

9. **Land held for sale**

	2006	2005
	(thousands of dollars)	
Raw land	\$ 45	\$ 45
Land under development	7,684	5,479
Developed land	4,317	12,695
	<u>\$ 12,046</u>	<u>\$ 18,219</u>

Land held for sale is affected by the Yukon First Nations land claims negotiations. At March 31, 2006, \$200,000 (2005 - \$3, 400,000) of developed 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.

10. **Accounts payable and accrued liabilities**

	2006	2005
	(thousands of dollars)	
Accounts payable	\$ 28,164	\$ 23,902
Accrued liabilities	25,310	23,891
Contractors' holdbacks and security deposits	3,575	1,718
Due to Territorial corporations	2,591	5,410
	<u>\$ 59,640</u>	<u>\$ 54,921</u>

11. **Post-employment benefits**

	2006	2005
	(thousands of dollars)	
Severance benefits	\$ 38,219	\$ 22,631
Sick leave obligation	14,420	12,285
Vacation leave obligation	11,511	9,482
Accrued benefit obligation	64,150	44,398
Unrecognized net actuarial loss	(18,420)	-
Accrued benefit liability	<u>\$ 45,730</u>	<u>\$ 44,398</u>

Severance benefits are paid on termination of service or upon retirement.

If an employee has at least five years of continuous service, a cash-in of sick leave will be paid on termination of service or upon retirement. The cash-in amount is calculated as 1/3 of unused sick leave credits to a maximum of 60 days multiplied by daily pay rate at termination or retirement.

GOVERNMENT OF YUKON

Notes to Financial Statements March 31, 2006

The actuarial obligation for sick and vacation leave and severance benefits is calculated using the projected benefit method prorated on service. In projecting the accrued obligation for these benefits as at March 31, 2006, the actuary assumed a discount rate of 5.75% and general salary increases of 2.5%. Commencing in the fiscal year 2006/2007, the net actuarial loss will be amortized over the expected average remaining service life of the active employees of 10.6 years.

Expenses related to post-employment benefits for the year ended March 31, 2006 were \$5,392,000 (2005 - \$5,041,000). Benefits paid by the Government from the post-employment benefits liability during the year amounted to \$4,044,000 (2005 - \$3,944,000).

12. Retirement benefits

(a) Public Service Pension Plan

The Government's employees participate in the Public Service Pension Plan administered by the Government of Canada. In this plan, employees accumulate pension benefits at 2% per year of pensionable service based on their five consecutive years of highest paid services. The Government contributes at a basic rate of 2.14 times the employee's contribution. The Government's contributions to the Public Service Pension Plan during the year and recorded as expenses were \$23,707,000 (2005 - \$25,878,000).

(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 Members' Services Board of the Legislative Assembly is responsible, pursuant to the *Legislative Assembly Retirement Allowances Act* (Yukon), for the administration of the Plan.

The funds are held by an investment manager in two different accounts. The first account holds the assets of the trust fund for the registered pension plan established pursuant to Parts 1 and 2 of the *Legislative Assembly Retirement Allowances Act*. The second account holds the assets of the Government, from which benefits under Part 3 of the *Legislative Assembly Retirement Allowances Act* are paid. It is the Government's policy to fully fund Parts 1 and 2 of this pension plan.

The *Legislative Assembly Retirement Allowances Act* stipulates that actuarial valuations for funding purposes 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. The assumptions used in a valuation for funding purposes are based on the actuary's best estimates with margins for conservatism. The most recent valuation was conducted as at March 31, 2005 based on March 31, 2005 membership data. The accrued benefit obligation as at March 31, 2006 is using best estimate assumptions accepted by the Members' Services Board of the Legislative Assembly (Schedule D).

(c) Territorial Court Judiciary Pension Plan

The Territorial Court Judiciary Pension Plan is a defined benefit pension plan. In this plan, benefits are accrued at an annual rate of 3% based on the judges' highest two consecutive years of pensionable earnings. Until December 31, 2005, the plan's benefit costs were offset by benefits paid under the Public Service Pension Plan and the Retirement Compensation Arrangement. As of January 31, 2006, pursuant to the proclamation of the *Territorial Court Judiciary Pension Plan Act* (Yukon), the Government withdrew the fund for the territorial judges from the Public Service Pension Plan and assumed the administrative responsibility of the pension fund as well as pension payments under the plan. The fund asset is managed by an investment manager.

GOVERNMENT OF YUKON

**Notes to Financial Statements
March 31, 2006**

An actuarial valuation for the plan was performed for accounting purposes using the membership data as at March 31, 2006 (Schedule D). A valuation for funding purposes for the registered pension plan component of the plan was conducted as at January 31, 2006. The next valuation for funding purposes will be done as at March 31, 2008.

(d) Extended health care and life insurance retirement benefits

The Government provides optional extended health care benefits to retired employees as well as life insurance coverage to eligible retirees. They are both defined benefit plans. The extended health care plan is self-insured. As at March 31, 2006, the Government paid approximately 65% of the extended health care benefit costs and 100% of the life insurance premium for participating retirees. An actuarial valuation of these benefits was conducted as of March 31, 2006 (Schedule D). There are no plan assets.

The retirement benefit liabilities of the Government as of March 31, 2006 were as follows:

	2006	2005
	(thousands of dollars)	
Accrued retirement benefit liabilities (Schedule D)		
Extended health care retirement benefit	\$ 31,949	\$ 28,928
Territorial Court Judiciary Pension Plan	2,867	2,608
Life insurance retirement benefit	1,114	1,021
Legislative Assembly Retirement Allowances Plan	(180)	76
	\$ 35,750	\$ 32,633

13. **Long-term debt**

	2006	2005
	(thousands of dollars)	
Loans from Canada, repayable in annual instalments with maturities up to the year 2008, bearing fixed interest rates ranging from 9.0% to 11.1%.	\$ 3,726	\$ 3,726

Principal repayment and interest requirements over the future years on outstanding loans are as follows:

	Principal	Interest	Total
	(thousands of dollars)		
2007	\$ 572	\$ 360	\$ 932
2008	3,154	182	3,336
	\$ 3,726	\$ 542	\$ 4,268

GOVERNMENT OF YUKON

Notes to Financial Statements
March 31, 2006

14. Capital lease obligations

	<u>2006</u>	<u>2005</u>
	(thousands of dollars)	
Building lease obligation payable monthly until the year 2012, with imputed interest rate of 11.0%. The building is to be transferred to the Government for \$1.00 at the end of the lease term.	\$ 3,154	\$ 3,567
Building lease obligation payable monthly until the year 2013, with imputed interest rate of 13.5%.	2,884	3,110
Building lease obligation payable monthly until the year 2010, with imputed interest rate of 13.3%.	793	903
Building lease obligation payable monthly until the year 2012, with imputed interest rate of 6.0%	-	2,813
	<u>\$ 6,831</u>	<u>\$ 10,393</u>

Interest expense related to capital lease obligations for the year was \$976,000 (2005 - \$1,140,000) at an imputed average interest rate of 10.9% (2005 - 10.9%). The following is a schedule of future minimum lease payments under the capital lease obligations.

	(thousands of dollars)
2007	\$ 2,156
2008	2,156
2009	2,156
2010	2,156
2011	2,038
Thereafter	<u>2,028</u>
Total minimum lease payments	12,690
Less: amount representing executory costs	(2,473)
amount representing rental of land	(642)
amount representing interest	<u>(2,744)</u>
	<u>\$ 6,831</u>

GOVERNMENT OF YUKON

Notes to Financial Statements
March 31, 2006

15. **Financial instruments**

The balances in cash and cash equivalents, due to/from Canada, accounts receivable, and accounts payable and accrued liabilities are non-interest bearing and have fair values that approximate their carrying amount due to their short term to maturity.

The fair value and the methods of calculation and assumptions used for the Government's long-term financial instruments are detailed below:

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands of dollars)			
Loans receivable	\$ 23,643	\$ 23,643	\$ 22,236	\$ 22,236
Long-term debt	3,726	3,899	3,726	4,026
Capital lease obligations	6,831	8,147	10,393	12,179

The carrying value, at the lower of cost or net recoverable value, is estimated to be the fair value of loans receivable due to the nature of these loans. The carrying value of the loans receivable should not be seen as the realizable value on immediate settlement of these loans due to the uncertainty associated with such a settlement.

The estimated fair value for capital lease obligations and long-term debt is calculated by discounting the expected future cash flows at year-end market interest rates for equivalent terms to maturity.

16. **Tangible capital assets**

	2006	2005
	Net Book Value	Net Book Value
	(thousands of dollars)	
Land	\$ 5,387	\$ 5,387
Buildings	272,604	255,249
Equipment and vehicles	30,751	29,824
Computer hardware and software	7,229	6,136
Transportation infrastructure	513,625	485,603
Other	8,970	5,621
(Schedule C)	<u>\$ 838,566</u>	<u>\$ 787,820</u>

The Government owns and/or maintains various historical sites. The Government also holds works of art with a total estimated value of \$3.4 million (2005 - \$2.3 million).

GOVERNMENT OF YUKON

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Leased capital assets are reported as part of the respective asset category. These leased assets are amortized on a straight-line basis over the lease term or estimated economic life. The amortization expense for the year was \$960,000 (2005 - \$960,000). The cost and accumulated amortization of leased capital assets that are included in the schedule of tangible capital assets are as follows:

	2006	2005
	(thousands of dollars)	
Buildings (cost)	\$ 8,820	\$ 12,071
Less accumulated amortization	(1,904)	(1,920)
	<u>\$ 6,916</u>	<u>\$ 10,151</u>

17. **Deferred capital contributions**

Where the fair value has been capitalized for tangible capital assets that were transferred from a third party such as Canada, an offset is recorded as a deferred capital contribution. Funding received for the acquisition, development, construction or betterment of tangible capital assets is also treated as a deferred capital contribution. The most significant of these assets are highways, bridges and airport infrastructure. The deferred capital contribution is recognized as revenue over the useful life of the related asset.

	2006	2005
	(thousands of dollars)	
Deferred capital contributions, beginning of year	\$ 428,529	\$ 415,757
Add: Assets transferred or funded during the year	41,299	25,912
Less: Disposal and write-down	(583)	(38)
Write-down	(96)	-
Amortization	(13,522)	(13,102)
Deferred capital contributions, end of year (Schedule C)	<u>\$ 455,627</u>	<u>\$ 428,529</u>

18. **Expenses by object**

	2006	2005
	(thousands of dollars)	
Personnel	\$ 270,514	\$ 256,255
Transfer payments	146,043	144,001
Contract and special services	96,026	97,039
Materials, supplies and utilities	70,389	69,355
Amortization expenses	31,958	30,583
Communication and transportation	22,276	20,965
Other	31,276	36,621
	<u>\$ 668,482</u>	<u>\$ 654,819</u>

GOVERNMENT OF YUKON

Notes to Financial Statements
March 31, 2006

19. **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.

	2006	2005
	(thousands of dollars)	
Compensation Fund (Yukon)	\$ 140,214	\$ 137,781
Federal Gas Tax Funds under the New Deal	4,509	-
Forest Sector Fund	3,168	2,078
Land Title Office – Assurance Fund	2,654	2,470
Water Resources Bonds	2,582	2,895
Crime Prevention and Victim Services	2,453	2,165
Lottery Commission	2,340	2,283
Historic Resources Trust Fund	1,177	1,148
Public Guardian Trust	736	1,117
Other	2,481	1,913
	\$ 162,314	\$ 153,850

20. **Contractual obligations**

The Government has entered into agreements for, or is contractually obligated for, the following payments subsequent to March 31, 2006.

	Expiry Date	2007	2008 – 2016	Total
	(thousands of dollars)			
Capital projects				
- in progress at March 31, 2006	2008	\$ 53,527	\$ 5,360	\$ 58,887
(recoverable amount)		(37,763)	(5,210)	(42,973)
RCMP policing agreement	2012	12,073	66,020	78,093
Building/office space leases	2016	7,714	18,423	26,137
Miscellaneous operational commitments	2008	4,019	1,561	5,580
		\$ 39,570	\$ 86,154	\$ 125,724

GOVERNMENT OF YUKON

Notes to Financial Statements
March 31, 2006

21. **Overexpenditure**

During the year, two (2005 - two) departments exceeded their votes with a total of \$1,714,000 (2005 - \$6,988,000). 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".

(thousands of dollars)

The votes that were overexpended are as follows:

Operations and maintenance	
Public Service Commission	\$ 1,712
Women's Directorate	1
Capital	
Public Service Commission	1

The *Appropriation Acts* (Yukon) states that the Government is not to expend grant payments in excess of the amounts specified in the Acts. During the year, four (2005 - four) departments exceeded the authorized amounts as follows:

Operations and maintenance grants	
Community Services	
- Home owner grants	\$ 40
Education	
- Post secondary student grants	95
Environment	
- Canadian Cooperative Wildlife Health Centre	1
Health and Social Services	
- Adoption subsidies	34
- Alcohol and drug - education and prevention	2
- Social assistance - Whitehorse	18
- Pioneer utility grant	143
- Medical travel subsidies	11
- Federal child benefit - region	1

22. **Guarantees**

The Government has guaranteed repayment of loans payable by the Yukon Housing Corporation of \$21.7 million (2005 - \$22.8 million), debts of the Yukon Development Corporation of \$22.4 million (2005 - \$24.1 million) and business loans totalling \$348,000 (2005 - \$325,000). The Government is also liable for the debt of the Yukon Government Fund Limited in the amount of \$7.8 million (2005 - \$15.0 million). In addition, the Government has guaranteed an operating demand overdraft facility to the Yukon Housing Corporation of up to \$11.0 million and to the Yukon Energy 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.

GOVERNMENT OF YUKON

Notes to Financial Statements March 31, 2006

23. Land claims

Between February 1995 and March 31, 2006, eleven Yukon First Nation Final and Self-government Agreements came into effect. Canada's negotiating mandate expired prior to the completion of the remaining three Yukon agreements. Settlements for these outstanding claims would not result in a general liability to the Government as they are to be funded by Canada. The Government would, however, be responsible for any financial obligations it might agree to during the negotiations.

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. In 2003/2004 the bilateral funding agreement was amended to include the federal Northern Affairs Program implementation funding and the council and commission funding that came to Yukon as part of the Northern Affairs Program Devolution Transfer Agreement.

The Government expended \$7.4 million during the year (2005 - \$4.0 million) with cumulative expenditures of approximately \$40.6 million (2005 - \$33.3 million), of which \$39.5 million (2005 - \$32.2 million) was funded by Canada.

24. Contingencies

In the normal course of operations, the Government is subject to legal claims. At March 31, 2006 the Government estimated the total claimed amount to be about \$2.4 million (2005 - \$5.3 million). No provision for claims has been made in these financial statements.

The Government established a Risk Management Revolving Fund in December 2004, with a limit of \$5 million, which is to be used for providing insurance and risk management services to the Government departments. Any expenses relating to property and liability losses incurred by the Government are to be paid out of this fund. The Government carries no insurance policy for its property losses, but carries a legal liability insurance policy with a \$2 million deductible. The Government had unpaid claims against the fund in the amount of \$438,000 as at March 31, 2006 (2005 - \$428,000). This amount is reported as part of the Government's accrued liabilities. The fund balance as at March 31, 2006 was \$2.1 million (2005 - \$1.0 million). (See also Schedule 6 of the Supplementary Financial Information.)

25. Environmental liabilities

The Government recognizes that there are costs related to the remediation of environmentally contaminated sites that the Government is responsible for. As at March 31, 2006, the Government was aware of 54 sites where the Government is obligated or is likely obligated to incur such costs. Of the 54 sites, nine are airports and 19 are highway maintenance camps, the majority of which are awaiting assessment dependent on funding availability. Consequently, costs to remedy any possible contaminations on these sites cannot be reasonably estimated. Quantifiable portions of remediation costs for some of the sites that have been at least partially assessed are currently estimated at \$630,000, of which \$600,000 have been recorded as a liability and reported as part of accrued liabilities.

The *Environment Act (Yukon) – Solid Waste Regulations* include requirements for closure and abandonment of a dump. Twenty-three of the 54 sites identified above are active or decommissioned landfill sites that are outside incorporated communities, and therefore are the responsibility of the Government. As at March 31, 2006, the Government was unable to confirm a reasonable amount of the liability for these solid waste landfills using the method recommended by the Canadian Institute of Chartered Accountants' Public Sector Accounting Board; therefore, no liability has been recorded for these sites.

GOVERNMENT OF YUKON

Notes to Financial Statements
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One site on the Commissioner's Land 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. As the likelihood of the Government's obligation to incur any remediation costs is not determinable at this point, no liability has been recorded for this site.

Pursuant to the Devolution Transfer Agreement, Canada retained responsibility for the clean-up of waste sites that were identified on lands transferred effective April 1, 2003. Canada also accepted financial responsibility for the remediation of impacts attributable to activities that took place prior to April 2003 on the mine sites identified as Type II sites. The Government is not aware of any financial obligations in relation to these mine sites.

26. **Related parties**

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

	2006	2005
	(thousands of dollars)	
Revenues from:		
Yukon Housing Corporation	\$ 4,526	\$ 1,644
Yukon Liquor Corporation	1,223	1,095
Compensation Fund (Yukon)	989	867
Yukon Lotteries Commission	637	561
Yukon Development Corporation	214	243
Yukon College	109	164
Yukon Hospital Corporation	19	31
	<u>\$ 7,717</u>	<u>\$ 4,605</u>
Expenses to:		
Yukon Hospital Corporation	\$ 30,170	\$ 26,573
Yukon College	17,702	16,822
Yukon Development Corporation	7,399	7,226
Compensation Fund (Yukon)	4,980	4,456
Yukon Housing Corporation	3,742	3,393
Yukon Legal Services Society	1,511	1,593
Yukon Arts Centre Corporation	1,043	905
Yukon Human Rights Commission	451	515
	<u>\$ 66,998</u>	<u>\$ 61,483</u>

GOVERNMENT OF YUKON

Notes to Financial Statements
March 31, 2006

27. **Subsequent events**

In April 2006, in order to aid the financial restructuring of the Town of the City of Dawson (Dawson), the Government wrote off \$3.3 million of its loans receivable from Dawson and consolidated Dawson's remaining long-term debt of \$1.5 million, including a bank loan, into a 25-year loan at 4% with a single payment due annually.

In order to address the pension shortfall of the Yukon College (the College), the Government entered into a contribution agreement with the College in April 2006, which is to provide \$1,251,600 per year to the College for five years. The first \$1,251,600 was paid to the College in April 2006.

28. **Comparative figures**

Certain comparative figures for 2005 have been reclassified to conform with the 2006 presentation.

GOVERNMENT OF YUKON

Schedule A

**Schedule of Revenues
for the year ended March 31, 2006**

	2006		2005
	Main Estimates (Note 1(b))	Actual	Actual
	(thousands of dollars)		
From Canada			
Formula Financing grant	\$ 494,140	\$ 494,140	\$ 470,996
Other grants	46,065	89,993	34,790
Contributions and service agreements	53,806	39,082	46,975
	<u>594,011</u>	<u>623,215</u>	<u>552,761</u>
Taxes and general revenues			
Income taxes	42,686	43,200	43,031
Other taxes	19,785	19,700	18,996
Licences, permits and fees	7,438	8,717	8,126
Yukon Liquor Corporation - net income	4,724	5,208	5,595
Interest - bank and other	1,191	4,200	1,054
Oil and gas resource revenue	9,016	4,146	2,184
Gain on sale of lots	141	847	634
Aviation operations	729	707	646
Fines	408	386	435
Other revenues	339	654	381
	<u>86,457</u>	<u>87,765</u>	<u>81,082</u>
Funding and service agreements with other parties	16,660	17,775	12,513
Amortization of deferred capital contributions	14,222	13,522	13,102
	<u>\$ 711,350</u>	<u>\$ 742,277</u>	<u>\$ 659,458</u>

GOVERNMENT OF YUKON

Schedule B

Schedule of Expenses
for the year ended March 31, 2006

	2006		Actual 2006				2005
	Main Estimates (Note 1(b))	Personnel	Transfer Payments	Other	Amortization Expenses	Total (Note 18)	Actual
	(thousands of dollars)						
Health and Social Services	\$ 175,764	\$ 59,894	\$ 58,838	\$ 61,743	\$ 2,612	\$ 183,087	\$ 171,453
Education	119,704	63,788	25,372	25,625	5,130	119,915	114,470
Highways and Public Works	109,912	31,836	111	63,227	19,033	114,207	116,098
Community Services	90,211	17,472	27,228	15,299	772	60,771	73,935
Justice	39,884	16,905	3,884	18,840	562	40,191	38,637
Energy, Mines and Resources	42,401	18,279	4,870	15,036	90	38,275	36,232
Public Service Commission	18,153	21,183	-	2,733	11	23,927	23,324
Environment	21,781	13,181	1,493	7,040	113	21,827	20,812
Executive Council Office	20,187	10,067	7,783	2,255	8	20,113	16,475
Tourism and Culture	19,795	6,721	5,067	7,304	613	19,705	19,515
Economic Development	15,940	3,655	6,510	3,433	2	13,600	11,294
Finance	5,509	3,968	1,311	577	4	5,860	4,814
Yukon Legislative Assembly	4,100	2,667	-	984	7	3,658	3,611
Yukon Housing Corporation (Transfer Payment)	5,069	-	3,371	-	-	3,371	3,016
Women's Directorate	814	463	205	224	-	892	792
Office of the Ombudsman	431	339	-	78	-	417	403
Elections Office	215	96	-	161	-	257	191
Interest on Loans	360	-	-	360	-	360	360
Restricted Funds	-	-	-	(4,952)	3,001	(1,951)	(613)
	\$ 690,230	\$ 270,514	\$ 146,043	\$ 219,967	\$ 31,958	\$ 668,482	\$ 654,819

GOVERNMENT OF YUKON

Schedule C

Schedule of Tangible Capital Assets
for the year ended March 31, 2006

	Land	Buildings	Equipment and Vehicles ³	Computer Hardware and Software	Transportation Infrastructure	Other ¹	2006 Total	2005 Total
(thousands of dollars)								
Cost of tangible capital assets, opening ^{2,3}	\$ 5,387	\$ 407,079	\$ 72,286	\$ 20,677	\$ 621,916	\$ 8,479	\$ 1,135,824	\$ 1,089,858
Acquisitions ²	-	31,541	5,533	3,139	42,489	3,727	86,429	47,425
Write-downs	-	(299)	(36)	(163)	-	-	(498)	-
Disposals	-	(3,370)	(3,379)	-	(764)	(187)	(7,700)	(1,459)
Cost of tangible capital assets, closing	5,387	434,951	74,404	23,653	663,641	12,019	1,214,055	1,135,824
Accumulated amortization, opening ³	-	151,830	42,462	14,541	136,313	2,858	348,004	318,803
Amortization expense	-	11,519	4,226	1,883	14,018	312	31,958	30,583
Disposals	-	(1,002)	(3,035)	-	(315)	(121)	(4,473)	(1,382)
Accumulated amortization, closing	-	162,347	43,653	16,424	150,016	3,049	375,489	348,004
Net book value (Note 16)	\$ 5,387	\$ 272,604	\$ 30,751	\$ 7,229	\$ 513,625	\$ 8,970	\$ 838,566	\$ 787,820
Work-in-progress		\$ 31,595	\$ -	\$ 2,515	\$ 43,804	\$ 2,433	\$ 80,347	\$ 47,353
Deferred capital contributions (Note 17)		\$ 61,961	\$ 1,163	\$ 2,039	\$ 389,016	\$ 1,448	\$ 455,627	\$ 428,529

¹ Includes portable classrooms, land improvements and fixtures.

² Includes work-in-progress.

³ Equipment's opening cost and accumulated amortization were adjusted by \$532,000 for several pieces of heavy equipment transferred from Canada.

GOVERNMENT OF YUKON

Schedule D

**Schedule of Retirement Benefits
for the year ended March 31, 2006**

					2006	2005
	Legislative Assembly Retirement Allowances Plan	Territorial Court Judiciary Pension Plan	Extended Health Care Retirement Benefit	Life Insurance Retirement Benefit	Total	Total
	(thousands of dollars)					
Pension and retirement plan assets are valued at fair market value.						
Accrued benefit obligation						
Obligation at beginning of year	\$ 19,719	\$ 2,609	\$ 28,928	\$ 1,021	\$ 52,277	\$ 48,324
Current service costs	649	151	1,024	32	1,856	1,913
Transfer from PSSA	-	2,452	-	-	2,452	-
Interest cost on benefit obligation	1,301	164	1,791	63	3,319	2,984
Actuarial gain	(4,321)	(803)	(2,068)	(40)	(7,232)	(126)
Benefits paid	(615)	(48)	(136)	(2)	(801)	(818)
Accrued benefit obligation at end of year	\$ 16,733	\$ 4,525	\$ 29,539	\$ 1,074	\$ 51,871	\$ 52,277
Plan assets						
Value at beginning of year	\$ 20,355	\$ -	\$ -	\$ -	\$ 20,355	\$ 18,571
Actual return on plan assets	2,124	(1)	-	-	2,123	1,599
Government contributions	715	48	136	2	901	927
Member contributions	77	8	-	-	85	76
Transfer from PSSA	-	2,452	-	-	2,452	-
Benefits paid	(615)	(48)	(136)	(2)	(801)	(818)
Value at end of year	\$ 22,656	\$ 2,459	\$ -	\$ -	\$ 25,115	\$ 20,355
Funded status - plan deficit (surplus)	\$ (5,923)	\$ 2,066	\$ 29,539	\$ 1,074	\$ 26,756	\$ 31,922
Unamortized net actuarial gain	5,743	801	2,410	40	8,994	711
Accrued benefit liability (asset) (Note 12)	\$ (180)	\$ 2,867	\$ 31,949	\$ 1,114	\$ 35,750	\$ 32,633
Net benefit cost						
Current service costs	\$ 649	\$ 151	\$ 1,024	\$ 32	\$ 1,856	\$ 1,913
Less: Member contributions	(77)	(8)	-	-	(85)	(76)
Interest cost on benefit obligation	1,301	164	1,791	63	3,319	2,984
Expected return on plan assets	(1,329)	-	-	-	(1,329)	(1,120)
Amortization of net actuarial (gain) loss	(84)	-	-	-	(84)	10
Net cost for the year	\$ 460	\$ 307	\$ 2,815	\$ 95	\$ 3,677	\$ 3,711

GOVERNMENT OF YUKON

**Schedule of Retirement Benefits
for the year ended March 31, 2006**

Schedule D
Continued

	Legislative Assembly Retirement Allowances Plan	Territorial Court Judiciary Pension Plan	Extended Health Care Retirement Benefit	Life Insurance Retirement Benefit
Assumptions				
Expected long-term rate of return on assets	6.5%	6.0%	N/A	N/A
Discount rate on accrued benefit obligation (March 31, 2006)	6.5%	6.5%	5.75%	5.75%
Discount rate on accrued benefit obligation (March 31, 2005)	6.5%	6.0%	6.0%	6.0%
Discount rate on benefit costs	6.5%	6.0%	6.0%	6.0%
Inflation	2.5%	3.0%	N/A	N/A
Rate of compensation increase	2.5% ¹	3.0%	see below ²	N/A
Health care cost trend rate	N/A	N/A	see below ³	N/A
Amortization period (expected average remaining service life)	8 years	8 years	10 years	8 years

¹ Annual rates of increase in indemnities and expense allowances. No salary increases are assumed.

² 3.0% on January 1, 2006 and 2.5% per annum thereafter.

³ 13.8% per annum, grading down annually by 2.2% per annum to 5.0% per annum and remaining at that level thereafter.