

YUKON LIQUOR CORPORATION

FINANCIAL STATEMENTS

March 31, 2010

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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, 2010, which include amounts based on management's best estimates as determined through experience and judgment, 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 audit report is included in this report.

A handwritten signature in black ink, appearing to read "Ron MacMillan", is written over a horizontal line.

Ron MacMillan
President

Date: May 28, 2010

A handwritten signature in black ink, appearing to read "F. Mark Davey", is written over a horizontal line.

F. Mark Davey, CA
Director, Finance, Systems and Administration

Date: May 28, 2010



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, 2010 and the statements of income, comprehensive 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, 2010 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 on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Corporation and the financial statements are in agreement therewith. In addition, 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 *Financial Administration Act* of Yukon and regulations, the *Liquor Act* and regulations, the *Liquor Tax Act* and the by-laws of the Corporation.

Guy LeGras, CA
Principal
for the Auditor General of Canada

Vancouver, Canada
May 28, 2010


YUKON LIQUOR CORPORATION
BALANCE SHEET
as at March 31

<u>ASSETS</u>		<u>2010</u>	<u>2009</u>
		(in thousands)	
Current			
	Cash	\$ 3,241	\$ 2,944
	Accounts receivable	124	84
	Inventories	2,897	2,415
	Prepaid expenses	80	-
		<u>6,342</u>	<u>5,443</u>
	Property, plant and equipment (Notes 5 and 7)	<u>1,326</u>	<u>1,571</u>
		<u>\$ 7,668</u>	<u>\$ 7,014</u>

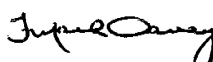
<u>LIABILITIES & EQUITY</u>			
Current			
	Accounts payable and accrued liabilities	\$ 3,307	\$ 1,551
	Due to the Government of Yukon (Note 6)	1,943	2,932
	Deferred revenue	78	74
		<u>5,328</u>	<u>4,557</u>
	Non-pension benefit liability (Note 10)	<u>1,014</u>	<u>886</u>
		<u>6,342</u>	<u>5,443</u>
	Equity (Note 7)	<u>1,326</u>	<u>1,571</u>
		<u>\$ 7,668</u>	<u>\$ 7,014</u>
	Commitments and contingencies (Note 11)		

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

Approved by Management:



President



Director, Finance, Systems & Administration

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

	2010	2009
	(in thousands)	
Sales		
Beer	\$ 15,885	\$ 14,590
Spirits	9,220	8,904
Wine	5,236	5,074
	30,341	28,568
Cost of goods sold	15,463	14,349
Gross profit	14,878	14,219
Expenses		
Salaries, wages and benefits	3,822	3,734
Rent, utilities and maintenance	1,545	1,638
Shared corporate services costs (Note 9d)	1,107	1,064
Amortization	368	513
Bank expenses	306	292
Travel and communications	237	225
Other	200	184
General and office supplies	147	161
	7,732	7,811
Operating income	7,146	6,408
Other income		
Fees, permits and licences	120	114
Miscellaneous	8	8
Services received from the Government of Yukon (Note 9c)	588	558
	716	680
Net income and comprehensive income from operations	7,862	7,088
Services provided to the Government of Yukon (Note 1 and 9c)	560	499
Net income and comprehensive income	\$ 7,302	\$ 6,589
Equity, beginning of year	1,571	2,011
Current year's income to be remitted to the Government of Yukon (Note 9a)	(7,547)	(7,029)
Equity, end of year (Note 7)	\$ 1,326	\$ 1,571

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

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

	<u>2010</u>	<u>2009</u>
	(in thousands)	
Operating activities		
Cash receipts:		
Sales - spirits, wine and beer	\$ 30,341	\$ 28,569
Annual licence fees and other	82	114
Cash disbursements:		
Purchases	(15,945)	(13,925)
Salaries, wages and benefits	(4,275)	(4,144)
General and administrative expenses	(1,616)	(3,132)
Prepaid expenses	(80)	-
Net cash provided by operating activities	<u>8,507</u>	<u>7,482</u>
Investing activities		
Cash receipts:		
Disposal of shelving	10	-
Cash disbursements:		
Acquisition of property, plant and equipment	(123)	(262)
Net cash used in investing activities	<u>(113)</u>	<u>(262)</u>
Financing activities		
Cash disbursements:		
Remittance of income to the Government of Yukon	(8,097)	(7,380)
Net cash used in financing activities	<u>(8,097)</u>	<u>(7,380)</u>
Increase (decrease) in cash for the year	<u>297</u>	<u>(160)</u>
Cash, beginning of year	<u>2,944</u>	<u>3,104</u>
Cash, end of year	<u>\$ 3,241</u>	<u>\$ 2,944</u>

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

YUKON LIQUOR CORPORATION
Notes to the Financial Statements
for the year ended March 31, 2010

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*.

The Corporation operates a central warehouse and distribution centre in Whitehorse and six liquor stores. The rural liquor stores also provide specific government services on behalf of the Government of Yukon.

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 Yukon on a monthly basis.

The Corporation is required by the *Liquor Tax Act* to collect liquor taxes on behalf of the Government of Yukon and to remit these taxes on a monthly basis. The current rate is 12% (2009 - 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 Government of Yukon, the Corporation is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*.

2. Adoption of New Accounting Standards

(a) Financial Instruments - Disclosures

In June 2009, the Canadian Institute of Chartered Accountants (CICA) amended Handbook Section 3862 "Financial Instruments - Disclosures" to include additional disclosure requirements regarding fair value measurements and liquidity risk related to financial instruments. All financial instruments measured at fair value must be classified in fair value hierarchy levels, which are as follows:

- Level 1 - values are based on quoted prices in active markets for identical assets or liabilities
- Level 2 - values are determined using inputs that are observable for similar assets or liabilities other than quoted prices
- Level 3 - values are determined using at least one input or assumption that is unobservable

Liquidity risk disclosure was enhanced with the inclusion of a maturity analysis for derivative and non-derivative financial liabilities.

As at March 31, 2010, this disclosure requirement had no impact on the financial statements, since the Corporation had no financial instruments that were being recorded at fair value.

(b) Goodwill and Intangible Assets

In February 2008, the CICA issued a new accounting standard, Handbook Section 3064 "Goodwill and Intangible Assets", which replaced Section 3062 "Goodwill and Other Intangible Assets". The new standard defines the recognition and measurement criteria for intangible assets and, in particular, for intangible assets that are internally generated. CICA Handbook Section 3064 is effective for periods beginning on or after October 1, 2008.

YUKON LIQUOR CORPORATION
Notes to the Financial Statements
for the year ended March 31, 2010

The standard provides guidance for the recognition of intangible assets including computer software that are not an integral part of the related hardware. The implementation of this new section did not have a significant impact on the Corporation's financial statements.

(c) Future Accounting Changes

International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board has announced that all publicly-accountable Canadian reporting entities will adopt IFRS as Canadian Generally Accepted Accounting Principles (GAAP) for the years beginning on or after January 1, 2011. The Corporation has hired an external advisor to assist in the conversion process and has completed its initial diagnostic and financial statement component evaluations.

3. 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 point of sale and net realizable value. Inventory costs are determined on a first-in, first-out basis. Cost is comprised of supplier-invoiced value and freight. Net realizable value represents the estimated selling price for inventories less the cost to sell.

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.

Property, plant and equipment

Property, plant and equipment owned by the Corporation are recorded at cost. Only assets that meet the minimum threshold limit are capitalized on the balance sheet. Amortization is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

<u>Classification</u>	<u>Estimated Useful Life</u>
Land	Indefinite
Buildings	20 years
Furniture and office	5 years
Operating equipment	5 years
Heavy equipment	15 years
Systems development	5 years
Systems equipment	5 years
Leasehold improvements	remaining term of lease

YUKON LIQUOR CORPORATION
Notes to the Financial Statements
for the year ended March 31, 2010

Employee future benefits

Non-pension benefits

Under their conditions of employment, employees may qualify for 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 obligations 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 the valuation date. Net actuarial gains and losses are amortized on a straight-line basis over the expected average remaining service life of the active employees commencing with the period following the determination of the net actuarial gains and losses. Extended health care and insurance plan employee future benefit liabilities are paid by and accrued in the financial statement of the Government of Yukon.

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 received from or provided to the Government of Yukon

The Corporation records in the Statement of Income, Comprehensive Income and Equity services it receives from or provides to the Government of Yukon in the normal course of operations, at their carrying amount. These services include the following:

- services, primarily accommodation, provided by the Government of Yukon;
- services provided by the Corporation to the Government in its capacity as 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.

Financial Instruments

The Corporation's financial instruments consist of Cash, Accounts receivable, Accounts payable and Due to the Government of Yukon. Accounts payable and Due to the Government of Yukon are due on demand and are non-interest bearing. The carrying amounts of each approximate fair values because of their short maturity. These financial instruments are accounted for as follows:

YUKON LIQUOR CORPORATION
Notes to the Financial Statements
for the year ended March 31, 2010

Loans and receivables

The Corporation has classified the following financial asset as loans and receivables: Accounts receivable. This instrument is initially recognized at its fair value. Fair value is approximated by the instruments initial cost in a transaction between unrelated parties. Loans and receivables are subsequently measured at its amortized cost, using the effective interest method. Gains and losses arising from changes in fair value are recognized in net income when the loan or receivable is settled or upon impairment.

Other financial liabilities

The Corporation has classified the following financial liabilities as other financial liabilities: Accounts payable and Due to the Government of Yukon. These instruments are initially recognized at their fair value. Fair value is approximated by the instrument's initial cost in a transaction between unrelated parties. Other financial liabilities are subsequently measured at their amortized cost, using the effective interest method.

4. Financial Instruments

Risk Management

The Corporation, through its financial assets and liabilities, is exposed to the following risks from its use of financial instruments: credit risk, and liquidity risk. The Corporation manages these risk exposures on an ongoing basis. The Corporation has no significant exposure to interest rate risk and foreign exchange risk. The Corporation is not party to any derivative financial instruments.

Credit Risk

Credit risk on financial instruments arises from the possibility that the issuer of a financial instrument fails to meet its obligation.

The carrying amount of Cash and Accounts receivable represents the maximum credit risk exposure.

The Corporation's Accounts receivable has a carrying value of \$124,000 as of March 31, 2010 (2009 - \$84,000). There is no concentration of accounts receivable with any one customer. As at March 31, 2010, approximately 0.1% (2009 – 36.6%) of Accounts receivable were over 90 days past due, whereas 99.9% (2009 – 63.4%) were current or less than 90 days past due. Historically, the Corporation has not incurred any significant losses with respect to bad debts. The Corporation's allowance for doubtful accounts is nil at March 31, 2010 (2009 - nil).

The risk on cash is minimized as these assets are held with a Canadian chartered bank.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation's objective is to have sufficient liquidity to meet these liabilities when due. The Corporation monitors its cash balances and cash flows generated from operations to meet its requirements by regularly checking bank balances and accounts payable reports.

The carrying amount of Accounts payable and accrued liabilities and Due to the Government of Yukon represents the maximum exposure to liquidity risk.

The Corporation does not have long-term financial liabilities. The Corporation's Accounts payable and accrued liabilities had a carrying value of \$3,307,000 as at March 31, 2010 (2009 – \$1,551,000). As at March 31, 2010, approximately \$162,000 or 4.9% (2009 – 1.6%) of Accounts payable were over 90 days past due, whereas 95.1% (2009 – 98.4%) were current or less than 90 days past due. Due to the Government of Yukon had a carrying value of \$1,943,000 as of March 31, 2010 (2009 - \$2,932,000).

YUKON LIQUOR CORPORATION
Notes to the Financial Statements
for the year ended March 31, 2010

5. Property, Plant and Equipment

Property, plant and equipment purchased by the Corporation are as follows:

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	(in thousands)			
Land	\$ 202	\$ -	\$ 202	\$ 202
Buildings	4,756	4,062	694	914
Furniture and office equipment	331	97	234	234
Operating equipment	202	159	43	54
Heavy equipment	148	75	73	-
Systems development	216	184	32	75
Systems equipment	223	175	48	92
Leasehold improvements	357	357	-	-
	<u>\$ 6,435</u>	<u>\$ 5,109</u>	<u>\$ 1,326</u>	<u>\$ 1,571</u>

The unamortized cost of property, plant and equipment acquired by the Government of Yukon up to March 31, 1990 and held by the Corporation is as follows:

	2010	2009
	(in thousands)	
Liquor store buildings	\$ 978	\$ 978
Store and warehouse	1,167	1,167
Equipment	375	375
Furniture and office equipment	104	104
	<u>\$ 2,624</u>	<u>\$ 2,624</u>

6. Due to the Government of Yukon

	2010	2009
	(in thousands)	
Reimbursements due for salaries to employees, shared services costs (2009) and other costs paid on behalf of the Corporation	\$ 678	\$ 802
Income due to the Government of Yukon pursuant to the Liquor Act (Note 9a)	988	1,539
Liquor Tax Act (Note 9b)	275	451
Net remittances due to the Recycling Fund	2	140
Net due at the end of the year	<u>\$ 1,943</u>	<u>\$ 2,932</u>

YUKON LIQUOR CORPORATION
Notes to the Financial Statements
for the year ended March 31, 2010

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, \$1,326,000 (2009 - \$1,571,000) which the Government of Yukon has provided to the Corporation. The annual change in equity represents additions and disposals of property, plant and equipment less amortization expense for the year.

8. Capital Management

The Corporation manages its capital in order to purchase a range of liquor products and make them available to consumers, and to regulate the sale and consumption of liquor products, while optimizing the net proceeds to government realized from the sale and control of liquor.

The Corporation defines capital as equity (see Note 7) which is represented by net assets. It is subject to the financial management and accountability provisions of the *Financial Administration Act*, the *Corporate Governance Act*, and the *Liquor Act*, which specifies that net assets of the Corporation are the property of the Government of Yukon.

The Corporation manages its equity through its five year capital plan and as a by-product of managing revenues, expenses, assets, liabilities and general financial dealings to ensure that its objectives are achieved efficiently. The five year capital plan and revenue projections are approved annually by the Management Board of the Government of Yukon. The Corporation is required to provide regular variance reporting to the Government of Yukon to ensure the Corporation effectively achieves its objectives whilst remaining a going concern.

The Corporation is not subject to external capital requirements. There has been no change to its capital management during the year.

9. Related Party Transactions

(a) **Income due to the Government of Yukon pursuant to the *Liquor Act***

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

	<u>2010</u>	<u>2009</u>
	(in thousands)	
Balance due at the beginning of the year	\$ 1,539	\$ 1,890
Net income and comprehensive income	7,302	6,589
Property, plant and equipment additions	(123)	(262)
Amortization	367	513
Adoption of new accounting policy	-	189
Current year's income to be remitted to the Government of Yukon	7,547	7,029
Less: remitted during the year	(8,098)	(7,380)
Balance due at the end of the year	<u>\$ 988</u>	<u>\$ 1,539</u>

YUKON LIQUOR CORPORATION
Notes to the Financial Statements
for the year ended March 31, 2010

(b) **Liquor tax**

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

	2010	2009
	(in thousands)	
Balance due at the beginning of the year	\$ 451	\$ 455
Liquor tax collected during the year	3,637	3,426
Less: remitted during the year	(3,813)	(3,430)
Balance due at the end of the year	\$ 275	\$ 451

(c) **Other transactions**

The value of services received by the Corporation from the Government of Yukon is estimated to be \$588,068 (2009 - \$557,860). The value of services provided by the Corporation to the Government of Yukon is estimated to be \$560,094 (2009 - \$499,328). These transactions are included in the financial statements of the Corporation.

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

The Corporation recognizes services received from and provided to the Government of Yukon at their carrying amount. 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 2010 net operating results of the Corporation as a result of this policy. The individual financial statement items affected are as follows:

Services received from the Government of Yukon	2010	2009
Salaries and benefits	\$ 3,179	\$ 6,979
Rent, utilities and maintenance	574,050	535,632
General and office supplies	10,839	15,249
	\$ 588,068	\$ 557,860
Services provided to the Government of Yukon	2010	2009
Salaries and benefits	\$ 471,660	\$ 422,529
Rent, utilities and maintenance	83,888	72,482
Travel and communications	4,546	4,317
	\$ 560,094	\$ 499,328

YUKON LIQUOR CORPORATION
Notes to the Financial Statements
for the year ended March 31, 2010

(d) **Shared services costs**

For the year ended March 31, 2010, the Corporation was part of a shared services arrangement with Yukon Housing Corporation which consolidated functions such as finance, systems and administration, policy and communications and human resources services. The amount charged by the Yukon Housing Corporation to the Corporation for shared services for the year was \$1,107,000. For the year ended March 31, 2009, these services were provided by a department of the Government of Yukon and the amount charged to the Corporation for shared services for the year was \$1,063,760.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The amounts payable by the Corporation at year-end totalling \$991,000 (2009 - nil) are included in Accounts payable and accrued liabilities.

10. Employee Future Benefits

Pension plan

The Corporation and all eligible employees contribute to the Public Service Pension Plan administered by the Government of Canada. 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:

	2010	(in thousands)	2009
Corporation's contributions	\$ 318		\$ 318
Employees' contributions	178		159

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. The results measured at March 31, 2010 are summarized as follows:

	2010	(in thousands)	2009
Accrued benefit obligation, beginning of year	\$ 1,006		\$ 881
Current service cost	73		71
Interest cost on accrued benefit obligation	62		55
Amortization of net actuarial gains	(1)		(1)
Prior unrecognized net actuarial gain	6		-
Accrued benefit obligation, end of year	\$ 1,146		\$ 1,006
Short-term portion (vacation)	\$ 132		\$ 120
Long-term portion	1,014		886
	\$ 1,146		\$ 1,006

YUKON LIQUOR CORPORATION
Notes to the Financial Statements
for the year ended March 31, 2010

The significant actuarial assumptions were:

Discount rate	5.75%	5.75%
Salary escalation rate	1.20% Jun. 1, 2009 2.50% per annum thereafter	1.80% Jan. 1, 2009 1.20% Jun. 1, 2009 2.50% per annum thereafter

The most recent actuarial valuation made for this non-pension benefit plan was prepared as of April 1, 2007. The next required valuation would be as of April 1, 2010.

11. Commitments and Contingencies

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>
2011	\$ 236,098	\$ 134,727	\$ 370,825
2012	19,708	68,775	88,483
2013	-	51,581	51,581
Total	<u>\$ 255,806</u>	<u>\$ 255,083</u>	<u>\$ 510,889</u>

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

In the normal course of operations, the Corporation enters into multi-year agreements for the provision of freight and other services. The total commitments as at March 31, 2010 for future years ending on March 31, 2012 is \$4,054,868.