

**YUKON LIQUOR CORPORATION**

**FINANCIAL STATEMENTS**

**March 31, 2011**

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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, 2011, 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 the 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: July 12, 2011

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: July 12, 2011



## INDEPENDENT AUDITOR'S REPORT

To the Minister responsible for the Yukon Liquor Corporation

### Report on the Financial Statements

I have audited the accompanying financial statements of the Yukon Liquor Corporation, which comprise the balance sheet as at 31 March 2011, and the statement of income, comprehensive income and equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### *Opinion*

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Yukon Liquor Corporation as at 31 March 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

### Report on Other Legal and Regulatory Requirements

As required by the *Liquor Act*, I report that, in my opinion, Canadian generally accepted accounting 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 Yukon Liquor Corporation and the financial statements are in agreement therewith. In addition, the transactions of the Yukon Liquor 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 Yukon Liquor Corporation.

Guy LeGras, CA  
Principal  
for the Interim Auditor General of Canada

12 July 2011  
Vancouver, Canada

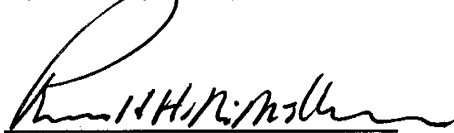
YUKON LIQUOR CORPORATION  
BALANCE SHEET  
as at March 31


<u>ASSETS</u>		<u>2011</u>	<u>2010</u>
		(in thousands)	
Current			
	Cash	\$ 2,260	\$ 3,241
	Accounts receivable	109	124
	Inventories	3,071	2,897
	Prepaid expenses	24	80
		5,464	6,342
	Property, plant and equipment (Notes 5 and 7)	994	1,326
		\$ 6,458	\$ 7,668

<u>LIABILITIES &amp; EQUITY</u>			
Current			
	Accounts payable and accrued liabilities	\$ 2,397	\$ 3,307
	Due to the Government of Yukon (Note 6)	2,055	1,943
	Deferred revenue	80	78
		4,532	5,328
	Non-pension benefit liability (Note 10)	932	1,014
		5,464	6,342
	Equity (Note 7)	994	1,326
		\$ 6,458	\$ 7,668
	Commitments (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

	2011	2010
	(in thousands)	
Sales		
Beer	\$ 16,614	\$ 15,885
Spirits	9,569	9,220
Wine	5,741	5,236
	31,924	30,341
Cost of goods sold	16,117	15,463
Gross profit	15,807	14,878
Expenses		
Salaries, wages and benefits	3,816	3,822
Rent, utilities and maintenance	1,625	1,545
Shared corporate services costs (Note 9d)	914	1,107
Amortization	358	368
Bank expenses	335	306
Travel and communications	249	237
Other	257	200
General and office supplies	102	147
	7,656	7,732
Operating income	8,151	7,146
Other income		
Fees, permits and licences	121	120
Miscellaneous	(4)	8
Services received from the Government of Yukon (Note 9c)	586	588
	703	716
Net income and comprehensive income from operations	8,854	7,862
Services provided to the Government of Yukon (Note 1 and 9c)	555	560
Net income and comprehensive income	\$ 8,299	\$ 7,302
Equity, beginning of year	1,326	1,571
Current year's income to be remitted to the Government of Yukon (Note 9a)	(8,631)	(7,547)
Equity, end of year (Note 7)	\$ 994	\$ 1,326

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

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

	2011	2010
	(in thousands)	
<b>Operating activities</b>		
Cash receipts:		
Sales - spirits, wine and beer	\$ 31,924	\$ 30,341
Annual licence fees and other	136	83
 Cash disbursements:		
Purchases	(16,292)	(15,945)
Salaries, wages and benefits	(4,293)	(4,275)
General and administrative expenses	(3,952)	(1,616)
Prepaid expenses	56	(80)
 Net cash provided by operating activities	7,579	8,508
<b>Investing activities</b>		
Cash receipts:		
Disposal of shelving	-	10
 Cash disbursements:		
Acquisition of property, plant and equipment	(26)	(123)
 Net cash used in investing activities	(26)	(113)
<b>Financing activities</b>		
Cash disbursements:		
Remittance of income to the Government of Yukon	(8,534)	(8,098)
 Net cash used in financing activities	(8,534)	(8,098)
 <b>Increase (decrease) in cash for the year</b>	(981)	297
<b>Cash, beginning of year</b>	3,241	2,944
<b>Cash, end of year</b>	\$ 2,260	\$ 3,241

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, 2011

**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% (2010 - 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 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 fiscal years beginning on or after January 1, 2011. As a government business enterprise, the Corporation is required to adopt IFRS for its fiscal year beginning April 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. The Corporation's financial statements will also require comparative financial information and an opening balance sheet as of April 1, 2010 prepared in accordance with IFRS.

**3. Accounting Policies**

These financial statements have been prepared in accordance with GAAP. 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.



YUKON LIQUOR CORPORATION  
**Notes to the Financial Statements**  
for the year ended March 31, 2011

**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 equipment	5 years
Operating equipment	5 years
Heavy equipment	15 years
Systems development	5 years
Systems equipment	5 years
Leasehold improvements	remaining term of lease

**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 statements 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; and
- services provided by the Corporation to the Government in its capacity as Territorial Agent in localities outside of Whitehorse.

YUKON LIQUOR CORPORATION  
**Notes to the Financial Statements**  
for the year ended March 31, 2011

**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 the 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 term to maturity. These financial instruments are accounted for as follows:

**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 instrument's initial cost in a transaction between unrelated parties. Loans and receivables are subsequently measured at their amortized cost, using the effective interest rate 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 rate 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 \$ 109,000 as of March 31, 2011 (2010 - \$124,000). There is no concentration of accounts receivable with any one customer. As at March 31, 2011, approximately 17.2% (2010 – 0.1%) of Accounts receivable were over 90 days past due, whereas 82.8% (2010 – 99.9%) 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, 2011 (2010 - nil).

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

**YUKON LIQUOR CORPORATION**  
**Notes to the Financial Statements**  
for the year ended March 31, 2011

**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 \$ 2,397,000 as at March 31, 2011 (2010 – \$3,307,000). As at March 31, 2011, approximately \$ 139,000 or 5.8% (2010 – 4.9%) of Accounts payable were over 90 days past due, whereas 94.2% (2010 – 95.1%) were current or less than 90 days past due. Due to the Government of Yukon had a carrying value of \$ 2,055,000 as of March 31, 2011 (2010 - \$1,943,000).

**5. Property, Plant and Equipment**

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

	2011			2010
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	(in thousands)			
Land	\$ 202	\$ -	\$ 202	\$ 202
Buildings	4,756	4,281	475	694
Furniture and office equipment	331	156	175	234
Operating equipment	202	173	29	43
Heavy equipment	174	85	89	73
Systems development	216	216	-	32
Systems equipment	223	199	24	48
Leasehold improvements	357	357	-	-
	<u>\$ 6,461</u>	<u>\$ 5,467</u>	<u>\$ 994</u>	<u>\$ 1,326</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:

	2011	2010
	(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>

YUKON LIQUOR CORPORATION  
**Notes to the Financial Statements**  
for the year ended March 31, 2011

**6. Due to the Government of Yukon**

	2011	2010
	(in thousands)	
Reimbursements due for salaries to employees, and other costs paid on behalf of the Corporation	\$ 671	\$ 678
Income due to the Government of Yukon pursuant to the Liquor Act (Note 9a)	1,085	988
Liquor Tax Act (Note 9b)	296	275
Net remittances due to the Recycling Fund	3	2
Net due at the end of the year	\$ 2,055	\$ 1,943

**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, \$994,000 (2010 - \$1,326,000) 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 of Yukon*, 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 that 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.

YUKON LIQUOR CORPORATION  
**Notes to the Financial Statements**  
for the year ended March 31, 2011

**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):

	2011	2010
	(in thousands)	
Balance due at the beginning of the year	\$ 988	\$ 1,539
Net income and comprehensive income	8,299	7,302
Property, plant and equipment additions	(26)	(123)
Amortization	358	368
Current year's income to be remitted to the Government of Yukon	8,631	7,547
Less: remitted during the year	(8,534)	(8,098)
Balance due at the end of the year	\$ 1,085	\$ 988

(b) **Liquor tax**

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

	2011	2010
	(in thousands)	
Balance due at the beginning of the year	\$ 275	\$ 451
Liquor tax collected during the year	3,828	3,637
Less: remitted during the year	(3,807)	(3,813)
Balance due at the end of the year	\$ 296	\$ 275

(c) **Other transactions**

The value of services received by the Corporation from the Government of Yukon is estimated to be \$585,702 (2010 - \$588,068). The value of services provided by the Corporation to the Government of Yukon is estimated to be \$555,345 (2010 - \$560,094). 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.

YUKON LIQUOR CORPORATION  
**Notes to the Financial Statements**  
for the year ended March 31, 2011

The individual financial statement items affected are as follows:

	2011	2010
	(in thousands)	
<b>Services received from the Government of Yukon</b>		
Salaries and benefits	\$ 3,242	\$ 3,179
Rent, utilities and maintenance	571,650	574,050
General and office supplies	10,810	10,839
	\$ 585,702	\$ 588,068
<b>Services provided to the Government of Yukon</b>		
Salaries and benefits	\$ 479,454	\$ 471,660
Rent, utilities and maintenance	71,267	83,888
Travel and communications	4,624	4,546
	\$ 555,345	\$ 560,094

**(d) Shared services costs**

The Corporation is 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 \$ 914,000 (2010 - \$1,107,000).

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 \$ 914,000 (2010 - \$991,000) 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:

	2011	2010
	(in thousands)	
Corporation's contributions	\$ 342	\$ 318
Employees' contributions	205	178

**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.

YUKON LIQUOR CORPORATION  
**Notes to the Financial Statements**  
for the year ended March 31, 2011

The results measured at March 31 are summarized as follows:

	2011	(in thousands)	2010
Accrued benefit obligation, beginning of year	\$ 1,146		\$ 1,006
Current service cost	74		73
Interest cost on accrued benefit obligation	61		62
Amortization of net actuarial gains	(209)		(1)
Prior unrecognized net actuarial gain	-		6
Accrued benefit obligation, end of year	\$ 1,072		\$ 1,146
Short-term portion (vacation)	\$ 140		\$ 132
Long-term portion	932		1,014
	\$ 1,072		\$ 1,146

The significant actuarial assumptions were:

Discount rate	5.00%	5.75%
Salary escalation rate	2.25% per annum	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, 2010. The next required valuation would be as of April 1, 2013.

#### 11. Commitments

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

Fiscal	Whitehorse Store	Other Retail Stores	Total
2012	\$ 243,220	\$ 117,533	\$ 360,753
2013	243,553	65,952	309,505
2014	251,329	65,952	317,281
2015	252,036		252,036
2016	252,036		252,036
Total	\$ 1,242,174	\$ 249,437	\$ 1,491,611

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, 2011 for future years ending on March 31, 2012 is \$1,890,859.

#### 12. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.