

## MANAGEMENT DISCUSSION AND ANALYSIS

### ACTUAL 2009/10 FINANCIAL RESULTS COMPARED TO 2008/09 ACTUAL RESULTS

Fiscal 2009/10 was the LDB's 18th consecutive year of sales growth. Gross sales were \$2.85 billion, an increase of \$59.5 million over last year.

Commissions and discounts were \$198.3 million, which was \$7.8 million higher than fiscal 2008/09. This is due to increased wholesale sales and more sales in the direct delivery channel.

Operating expenses were 9.7 per cent of sales for the fiscal year, which is the same as fiscal 2008/09. Operating expenses were \$5.9 million higher than fiscal 2008/09 and the largest changes occurred in the following areas:

- employment expenses increased \$7.2 million due to negotiated salary increases, higher benefit rates, and 34 more staff (full time staff equivalent hours);
- rents increased \$1.8 million due to existing lease contracts and higher rents in urban areas as leases are renewed;
- amortization increased \$1.1 million due to projects that were completed during the year and were put in use; and
- professional fees decreased \$2.2 million as planned programs were not started during fiscal 2009/10.

Compared to fiscal 2008/09, net income was \$877.3 million, a decrease of \$13.8 million. LDB net income as a percentage of sales decreased to 30.7 per cent from 31.9 per cent in the previous year. This decrease is due to the shift in sales from the retail channel (35.1 per cent) to the wholesale channel (27.8 per cent), the increase in direct delivered 100 per cent BC wine products which result in no markup to the LDB, and the shift in product mix from spirits to beer and refreshment beverages.

### SUMMARY OF FINANCIAL RESULTS OVER 5 YEARS

For the five years ended March 31, 2010 (all dollar figures in \$000)

	Actual 2009/10	Budget 2009/10	Actual 2008/09	Actual 2007/08	Actual 2006/07	Actual 2005/06
Gross Sales	2,854,072	2,854,172	2,794,530	2,679,466	2,509,125	2,318,643
Cost of Sales	1,515,289	1,480,440	1,451,244	1,396,466	1,276,167	1,170,772
Gross Margin	1,140,494	1,180,721	1,152,762	1,103,040	1,090,834	1,022,929
Operating Expenses	275,875	291,811	269,954	256,058	256,302	242,428
Operating Income	864,619	888,910	882,808	846,982	834,532	780,501
Net Income	877,276	896,047	891,117	857,216	840,286	800,471
Gross Margin (%)	40.0%	41.4%	41.3%	41.2%	43.5%	44.1%
Operating Expenses to Sales (%)	9.7%	10.2%	9.7%	9.6%	10.2%	10.5%
Net Income to sales (%)	30.7%	31.4%	31.9%	32.0%	33.5%	34.5%
Inventory Turnover	17	16	17	18	19	19

Data source: LDB Oracle Financial System

Capital expenditures increased to \$18.9 million from \$16.9 million in the previous year. Capital expenditures included: the Kamloops data centre; the financial business improvement project; regulatory changes; and the completion of the recorded information management system. In addition, there were ongoing operational capital needs and tenant improvements for GLSs.

During fiscal 2009/10, the customer count at GLSs increased by 11.3 per cent, or 3.9 million customers to 38.4 million, partly due to the 2010 Olympic and Paralympic Winter Games. The average retail customer transaction value at GLSs increased marginally from \$31.35 to \$31.43. This marginal increase can be attributed to a change in product preference from spirits to beer and refreshment beverages.

Overall inventory turns for the LDB have remained constant at 17 times. This indicates that the average number of days that the LDB holds inventory has remained at 21 days. Inventory turns at the GLSs remained at 16 turns per year. The stability of the inventory turns reflects the LDB's close monitoring of warehouse and store inventories with the changing product mix during fiscal 2009/10.

## SUMMARY OF OPERATIONS

(all \$ figures in \$000s)

	Actual 2009/10	Budget 2009/10	Change vs. 2009/10 Budget	Actual 2008/09	Change vs. 2008/09 Actual
Gross Sales	2,854,072	2,854,172	(100)	2,794,530	59,542
Net Income	877,276	896,047	(18,771)	891,117	(13,841)
Capital Expenditures	18,935	21,052	(2,117)	16,865	2,070
Gross Margin %	40.0%	41.4%	(1.4%)	41.3%	(1.3%)
Operating Income to Sales	30.3%	31.1%	(0.8%)	31.6%	(1.3%)
Operating Expenses to Sales	9.7%	10.2%	(0.5%)	9.7%	-
Net Income to Sales	30.7%	31.4%	(0.7%)	31.9%	(1.2%)
Inventory Turnover	17	16	1 time	17	-
Customer Count	38,403	N/A	N/A	34,516	3,887
Average Transaction \$ Value	\$ 31.43	\$ 31.05	\$ 0.38	\$ 31.35	\$ 0.08

Data source: LDB Oracle Financial System

## Retail and Wholesale Channels

The segmented information provided below allocates the financial results into the retail and wholesale channels. The retail channels include all counter sales in GLSs, and wholesale represents all other sales.

An Activity-Based Costing analysis between the retail and wholesale channels, which allocates expenses between the two channels, was done based on activities in fiscal 2006/07. This analysis was updated during fiscal 2009/10 based on the previous fiscal year's activity and will be used in the fiscal 2010/11 segmentation.

For the retail channel, the net income as a percentage of sales increased from 34.6 to 35.1 per cent. The channel experienced a 2.1 per cent increase in sales. However, the cost of products only increased 1.5 per cent due to the mix of products sold through the retail channel. Operating expenses as a percentage of sales has remained constant.

## RETAIL RESULTS

<b>Retail</b> <i>in millions \$</i>	<b>Actuals</b> <b>2009/10</b>	<b>%</b>	<b>Actuals</b> <b>2008/09</b>	<b>%</b>	<b>%</b> <b>Change</b>
Sales	1,160.3	100.0%	1,136.2	100.0%	2.1%
Cost of Sales	563.2	48.5%	554.9	48.8%	1.5%
Operating Expenses	196.4	16.9%	192.0	16.9%	2.3%
Other Income	6.4	0.6%	4.2	0.4%	52.4%
<b>Net Income</b>	<b>407.1</b>	<b>35.1%</b>	<b>393.5</b>	<b>34.6%</b>	<b>3.5%</b>

For the wholesale segment, the net income as a percentage of sales decreased to 27.8 per cent from 30.0 per cent. The segment experienced a 2.1 per cent increase in sales but a 4.1 per cent increase in discounts and 6.2 per cent increase in cost of sales. This increase in discounts reflects an increase in LRS market share. The wholesale segment has a higher proportion of beer sales than the retail segment which results in an overall lower return due to the lower mark-up rate on beer. In addition, direct delivery sales of 100 per cent BC wine products by BC wineries do not result in any mark-up to the Branch.

## WHOLESALE RESULTS

<b>Wholesale</b> <i>in millions \$</i>	<b>Actuals</b> <b>2009/10</b>	<b>%</b>	<b>Actuals</b> <b>2008/09</b>	<b>%</b>	<b>%</b> <b>Change</b>
Sales	1,693.8	100.0%	1,658.3	100.0%	2.1%
Commissions & Discounts	198.3	11.7%	190.5	11.5%	4.1%
Cost of Sales	952.1	56.2%	896.3	54.1%	6.2%
Operating Expenses	79.5	4.7%	78.0	4.7%	1.9%
Other Income	6.3	0.4%	4.1	0.3%	53.7%
<b>Net Income</b>	<b>470.2</b>	<b>27.8%</b>	<b>497.6</b>	<b>30.0%</b>	<b>(5.5%)</b>

### Product Categories

Overall, the product mix shifted from spirits and wines to beer and refreshment beverages.

With the exception of spirits, all major product categories experienced growth in dollar sales. The largest percentage dollar increase was in the refreshment beverage category at 8.9 per cent or \$10.2 million. Sales in the beer category increased by 6 per cent with packaged beer increasing by \$45.2 million or 4.6 per cent and draught beer increasing by \$5.9 million or 4.4 per cent. Sales in the wine category increased by \$13.2 million or 1.6 per cent. Spirits decreased by \$11.1m or 1.5 per cent. Specialty and non alcoholic sales decreased by \$3.9 million or 31.6 per cent from the previous year.

Sales volume increased in all major categories except spirits and specialty and non-alcoholic. The refreshment beverage category had the largest percentage volume increase at 14.1 per cent over the previous year, followed by beer at 3.7 per cent—packaged (4 per cent) and draught (2.2 per cent)—and wine at 2.5 per cent. Spirits decreased by 4 per cent and non-alcoholic volumes decreased by 0.6 per cent.

## PRODUCT CATEGORY CHANGES

	% Change in Sales \$ from Previous Year		% Change in Sales Volume (Litres) from Previous Year	
	Domestic	Import	Domestic	Import
Spirits	(3.5)	1.2	(6.4)	(0.2)
Wine	5.2	(1.2)	4.3	0.7
Beer	2.4	14.0	1.9	13.0
Refreshment	14.1	(11.2)	19.7	(13.0)

### Market Share

LRSs and agency stores purchase their product from the LDB at discounts ranging from 10 to 30 per cent. During the year, the share of the liquor market accounted for by these outlets increased to 41.7 per cent from 41.3 per cent.

## PROVINCIAL SALES BY SOURCE

For the five years ended March 31, 2010 (as a percentage of total dollar sales)

	2009/10	2008/09	2007/08	2006/07	2005/06
<b>Counter Sales</b>					
Government Liquor Stores (%)	40.7	40.7	40.5	42.7	45.3
Licensee Retail Stores (%)	33.5	33.0	32.3	30.1	28.0
Agency Stores (%)	8.2	8.3	8.1	8.3	7.5
Total Counter Sales (%)	82.4	82.0	80.9	81.1	80.8
Licensed Establishments (%)	17.6	18.0	19.1	18.9	19.2
<b>Total Sales (%)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Data source: LDB Oracle Financial System

## COUNTER SALES BY SOURCE

For the five years ended March 31, 2010 (as a percentage of total dollar sales)

	2009/10	2008/09	2007/08	2006/07	2005/06
<b>Counter Sales</b>					
Government Liquor Stores (%)	49.3	49.6	50.0	52.7	56.0
Licensee Retail Stores (%)	40.7	40.3	39.9	37.1	34.7
Agency Stores (%)	10.0	10.1	10.1	10.2	9.3
<b>Total Counter Sales Market (%)</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Data source: LDB Oracle Financial System

## FUTURE OUTLOOK

The table below outlines the LDB's financial forecast for the next three years. The financial forecast incorporates several key assumptions:

Sales assumptions, based on market trends by product categories, include:

- increases of 4.4 per cent, 2.9 per cent and 2.3 per cent over the next three years due to inflationary trends and HST markup adjustments; and
- growth in sales is expected to be realized in both the wholesale and retail segments and the market share between retail to wholesale is expected to be stable for 2010/11 and the following two years.

Overall volume changes for all product categories are expected to be less than 1 per cent from the levels in fiscal 2009/10.

Continued growth in direct delivered 100 per cent BC wine products and the shift in market between product categories is expected to result in a lower return on total sales.

Cost of sales as a percentage of sales is estimated to decline in 2010/11 to 50.8 per cent and in 2011/12 to 50.5 per cent due to the HST markup adjustment which becomes effective July 1, 2010.

Operating expense assumptions include:

- no labour cost increases for fiscal 2010/11 or 2011/12;
- higher rents especially in the urban regions;
- greater amortization due to implementation of capital projects and store improvements; and
- increased costs due to compliance with PCI standards and increasing credit card charges (premium cards and merchant fees).

Capital requirements reflect expenditures for updating and improving stores, technology-related projects and ongoing equipment replacement. The increase in capital requirements for 2011/12 and 2012/13 reflects funding for the replacement of the POS system in the GLSs.

The financial forecasts reflect accounting treatment that is consistent with current Canadian generally accepted accounting principles.

## BUDGET AND FORECASTS

(in \$millions)

	Budget 2010/11	Forecast 2011/12	Forecast 2012/13
Total Sales	2,969.4	3,056.7	3,126.3
Commissions and Discounts	198.0	203.6	208.1
Cost of sales	1,507.9	1,544.2	1,580.0
Operating Expenses	296.9	302.9	306.5
Other income	7.1	7.5	7.5
<b>Net Income</b>	<b>973.7</b>	<b>1,013.5</b>	<b>1,039.2</b>
Capital	23.9	32.2	34.9

The tables below reflect the LDB's forecast for the retail and wholesale channels for the next three years.

### Retail and Wholesale Channels Budget and Forecasts

#### SUMMARY FINANCIAL OUTLOOK (RETAIL)

(in \$millions)

	Projection Fiscal 2010/11	Projection Fiscal 2011/12	Projection Fiscal 2012/13
Total Sales	1,235.0	1,271.2	1,299.6
Cost of Sales	593.2	610.5	624.0
Operating Expenses	209.3	213.5	216.1
Other Income	3.6	3.8	3.8
<b>Net Income</b>	<b>436.1</b>	<b>451.0</b>	<b>463.3</b>

#### SUMMARY FINANCIAL OUTLOOK (WHOLESALE)

(in \$millions)

	Projection Fiscal 2010/11	Projection Fiscal 2011/12	Projection Fiscal 2012/13
Total Sales	1,734.4	1,785.5	1,826.7
Commissions and Discounts	198.0	203.6	208.1
Cost of Sales	914.7	933.7	956.0
Operating Expenses	87.6	89.4	90.4
Other Income	3.5	3.7	3.7
<b>Net Income</b>	<b>537.6</b>	<b>562.5</b>	<b>575.9</b>

## Risk Management

The LDB Executive Management Committee meets monthly to discuss service plan performance, risks and mitigating strategies.

In view of the uncertainty of the economic climate, the LDB will be more closely monitoring its financial performance by comparison to previous year and budget in order to ensure that actions are taken to mitigate any risk as soon as possible.

In 2009, the LDB reviewed the Enterprise Wide Risk Assessment done in 2008 and confirmed the key risks which are being addressed. The LDB currently has a number of projects in progress to address the business and technology risks. These include the Financial Business Improvement Project, the Payment Card Industry Data Security Standards (PCI DSS) Compliance Program and the conversion to International Financial Reporting Standards. The PCI DSS project is being done as part of the overall provincial government program.

<b>RISK FACTORS AND SENSITIVITIES</b>	<b>MITIGATING STRATEGIES</b>
<p><b>ECONOMY</b></p> <p>Liquor is a discretionary consumer product and sales are negatively impacted by poor economic conditions.</p>	<p>&gt; The LDB will carefully monitor sales and operating expenses and will make the necessary adjustments in order to achieve net income target.</p>
<p><b>INFORMATION TECHNOLOGY</b></p> <p>The upgrading of information systems and reviewing of business processes are key in the delivery of efficient and effective services to all of the LDB's customers. The replacement of older, difficult-to-maintain systems with new systems creates challenges in ensuring integration of applications and ensuring accurate information.</p>	<p>&gt; The LDB is replacing older systems on a scheduled basis and is working to improve the overall integration of systems.</p>
<p><b>PAYMENT CARD INDUSTRY COMPLIANCE</b></p> <p>In order for the LDB to provide credit card service in BC Liquor Stores, it must comply with the new PCI DSS.</p>	<p>&gt; The LDB is developing and implementing a PCI compliance program that coordinates with the government-wide efforts currently underway.</p>
<p><b>RECRUITING AND RETENTION OF SKILLED EMPLOYEES</b></p> <p>The LDB and many other organizations are experiencing difficulties in staffing key positions due to retirements.</p>	<p>&gt; The LDB has a focus on succession planning in order to recruit skilled employees from outside the organization and to support the career development of employees within the organization.</p>

## Management's Responsibility For Financial Reporting

The financial statements of the British Columbia Liquor Distribution Branch have been prepared by management in accordance with Canadian generally accepted accounting principles. Any financial information contained elsewhere in the annual report has been reviewed to ensure consistency with the financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and financial records are properly maintained to facilitate the preparation of financial statements in a timely manner.

The Office of the Auditor General of British Columbia has performed an independent audit of the financial statements of the Liquor Distribution Branch. The Auditor's Report outlines the scope of this independent audit and expresses an opinion on the financial statements of the Liquor Distribution Branch.



Jay Chambers  
General Manager



Roger M. Bissoondatt, CA, CMA  
Chief Financial Officer

Vancouver, British Columbia  
June 4, 2010



## Report of the Auditor General of British Columbia

*To the Minister of Housing and Social Development  
Province of British Columbia:*

I have audited the balance sheet of the *British Columbia Liquor Distribution Branch* as at March 31, 2010, and the statements of operations, advance due to Province of British Columbia and cash flows for the year then ended. These financial statements are the responsibility of the Branch'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 *British Columbia Liquor Distribution Branch* 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.

*Victoria, British Columbia  
June 4, 2010*

John Doyle, MBA, CA  
Auditor General

## Audited Financial Statements

British Columbia Liquor Distribution Branch

### BALANCE SHEET

(in \$000s)

As at March 31,

	2010	2009
		(note 17)
<b>ASSETS</b>		
CURRENT ASSETS		
Cash	6,724	502
Accounts receivable	5,307	7,444
Inventories (note 3)	89,974	91,202
Prepaid expenses (note 4)	4,294	4,332
	<u>106,299</u>	<u>103,480</u>
LONG TERM ASSETS		
Prepaid expenses – long term (note 4)	2,090	2,855
Intangible Assets (note 5)	4,560	2,928
Property, plant and equipment (note 6)	57,622	53,010
	<u><b>170,571</b></u>	<u><b>162,273</b></u>
<b>LIABILITIES</b>		
CURRENT LIABILITIES	155,451	159,950
Accounts payable and accrued liabilities	85	96
Current portion of deferred tenant allowances (note 7)	361	436
Current portion of tenant improvement loans (note 8)	74	68
Current portion of obligation under capital lease (note 9)	13,773	375
Due to Province of British Columbia (note 10)	169,744	160,925
LONG TERM LIABILITIES	432	517
Deferred tenant allowances (note 7)	219	581
Tenant improvement loans (note 8)	176	250
Obligation under capital lease (note 9)	<u><b>170,571</b></u>	<u><b>162,273</b></u>

Commitments and contingent items (notes 11 & 12)

Approved by:



Jay Chambers  
General Manager



Roger M. Bissoondatt, CA, CMA  
Chief Financial Officer

The accompanying notes and supplementary schedule are an integral part of these financial statements.

British Columbia Liquor Distribution Branch

**STATEMENT OF OPERATIONS**

(in \$000s)

Year Ended March 31,	2010	2009
Sales (note 13)	2,854,072	2,794,530
Less commissions & discounts	198,289	190,524
	2,655,783	2,604,006
Cost of merchandise sold	1,515,289	1,451,244
Gross margin	1,140,494	1,152,762
Operating expenses (schedule)	275,875	269,954
	864,619	882,808
Other income	12,657	8,309
Net income	<b>877,276</b>	<b>891,117</b>

**STATEMENT OF ADVANCE DUE (TO) FROM PROVINCE OF BRITISH COLUMBIA**

(in \$000s)

Year Ended March 31,	2010	2009
Balance beginning of year	(375)	34,976
Net income	(877,276)	(891,117)
Payments to the Province of British Columbia	863,878	855,766
Balance end of year	<b>(13,773)</b>	<b>(375)</b>

The accompanying notes and supplementary schedule are an integral part of these financial statements.

British Columbia Liquor Distribution Branch

**STATEMENT OF CASH FLOWS**

(in \$000s)

Year Ended March 31,	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers	2,657,921	2,517,522
Cash payments to the Province of British Columbia	(863,878)	(855,766)
Cash paid to suppliers and employees	(1,780,945)	(1,629,483)
Cash receipts from other income	12,595	8,096
Interest paid on capital lease and loans	(93)	(209)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>25,600</b>	<b>40,160</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property, plant & equipment	(11,890)	(11,024)
Acquisition of capital project assets	(6,134)	(5,528)
Additions to intangible assets	(909)	0
Proceeds from disposal of property, plant & equipment	59	203
<b>CASH FLOWS (USED IN) INVESTING ACTIVITIES</b>	<b>(18,874)</b>	<b>(16,349)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment on capital lease	(68)	(61)
Tenant improvement loans	(436)	(601)
<b>CASH FLOWS (USED IN) FINANCING ACTIVITIES</b>	<b>(504)</b>	<b>(662)</b>
<b>NET INCREASE IN CASH</b>	<b>6,222</b>	<b>23,149</b>
<b>CASH (BANK INDEBTEDNESS) BEGINNING OF YEAR</b>	<b>502</b>	<b>(22,647)</b>
<b>CASH END OF YEAR</b>	<b>6,724</b>	<b>502</b>

The accompanying notes and supplementary schedule are an integral part of these financial statements.

British Columbia Liquor Distribution Branch

**SCHEDULE OF OPERATING EXPENSES**

(in \$000s)

Year Ended March 31,	2010	2009
Salaries, wages and benefits (note 14)	163,326	156,109
Rents	33,662	31,845
Bank charges	19,590	18,968
Amortization	12,692	11,598
Freight to stores	9,558	9,707
Repairs and maintenance	6,780	7,569
Other operating expenses	5,666	6,234
Professional services	4,140	6,374
Data processing	3,801	4,302
Merchandising	3,743	4,343
Loss prevention	2,997	2,642
Light, water and fuel	2,644	2,706
Telephone	2,583	2,432
Stationery and supplies	2,275	2,336
Warehouse equipment costs	1,583	1,700
Travel	742	880
Interest on long term liabilities	93	209
	<b>275,875</b>	<b>269,954</b>

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

## Notes to the Financial Statements

March 31, 2010

(Tabular amounts in \$000s)

### 1. PURPOSE OF THE BRANCH

The British Columbia Liquor Distribution Branch (Branch) obtains its authority for operation from the *British Columbia Liquor Distribution Act (Act)*. As stated in Section 2 of this *Act*, the Branch has the exclusive right to purchase liquor for resale and reuse in the Province in accordance with the provisions of the *Importation of Intoxicating Liquors Act (Canada)*.

### 2. SIGNIFICANT ACCOUNTING POLICIES

As prescribed by Section 30(3)(b) of the *Act*, the financial statements of the Branch are prepared in accordance with Canadian generally accepted accounting principles.

Significant accounting policies are as follows:

#### Financial Instruments

The Branch has designated its financial instruments as follows:

Cash is classified as held for trading and measured at fair value. Accounts receivable are classified as loans and receivables and are measured at amortized cost. Bank indebtedness, accounts payable and accrued liabilities are classified as other financial liabilities and are also measured at amortized cost.

The Branch is exposed to various risks related to its financial assets and liabilities. It is management's opinion that the Branch is not exposed to significant market, credit or liquidity risk arising from these instruments.

#### Market Risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the Branch's income or the value of its financial instruments. The Branch's exposure to foreign currency risk is only related to the value of foreign exchange transactions in the normal course of business, and manages this risk by minimizing the amount of the transactions in foreign funds.

#### Liquidity Risk

Liquidity risk is the risk that the Branch will be unable to meet its financial obligation as they become due. The Branch manages liquidity risk primarily by monitoring cash flows and by maintaining the ability to borrow funds through the Province.

#### Credit Risk

Credit risk is the risk of financial loss to the Branch due to customer inability to pay for product or counterparty to a financial instrument fails to meet its contractual obligations. The Branch's exposure to credit risk is only related to the value of accounts receivable in its normal course of business, and manages this risk by minimizing the amount of transactions which require recovery. The Branch continually monitors and manages the collection of receivables.

## Notes to the Financial Statements

March 31, 2010

(Tabular amounts in \$000s)

### 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### Foreign Currency Translation

The Branch in the normal course of business purchases product in foreign currency. Any foreign currency transactions are translated into Canadian dollars at the rate of exchange in effect at transaction date. Any foreign currency denominated monetary assets and liabilities are stated using the prevailing rate of exchange at the balance sheet date.

#### Inventories

The Branch's inventories are valued at the lower of cost and net realizable value. Store inventories are determined on a first-in, first-out basis. Warehouse inventories are determined on a weighted average cost basis. Cost is comprised of supplier invoiced value, freight, duties and taxes. Net realizable value represents the estimated selling price for inventories less the costs to sell.

#### Intangible Assets

On April 1, 2009 the Branch adopted, on a retrospective basis with restatement, section 3064 Goodwill and Intangible Assets which provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangibles assets acquired in a business combination. This standard is effective for fiscal years beginning on or after October 1, 2008 and requires retroactive application to prior period financial statements.

Under the new standard, costs related to development projects can be recorded as assets only if they meet the definition of an intangible asset. Intangible assets include purchased/customized software and the capitalized cost of internal and external IT professionals developing and tailoring software used in the business. Additionally, computer software that is not an integral part of the related hardware and was previously included in property and equipment is required under the new standard to be included in intangible assets. As these costs have a limited useful life, they continue to be amortized at a rate of 25 per cent per annum.

The adoption of this new standard did not have any impact on net income.

#### Property, Plant and Equipment

Property, plant and equipment are stated at cost and are amortized over the estimated useful lives of the assets as expressed as follows:

##### Buildings

7.5 per cent per annum.

##### Leasehold Improvements

A minimum of 10 per cent per annum or a rate sufficient to amortize the cost over the remaining life of the respective lease.

##### Furniture, Fixtures, Vehicles and Equipment

25 per cent per annum.

##### Information Systems

25 per cent per annum.

# Notes to the Financial Statements

March 31, 2010

(Tabular amounts in \$000s)

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Leasehold improvements and capital projects

All material costs of construction and development for leasehold improvements and capital projects are treated as assets under Construction in Progress accounts. At the point in time when the project is substantially completed the costs are capitalized into their applicable categories and amortized at the asset category rate.

### Leases

Assets recorded as capital leases are capitalized and amortized at the applicable asset category rate. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

### Revenue Recognition

Revenue is recognized when the sale of product is made to customers. Customers include retail customers, licensed establishments, licensee retail stores, and agency stores.

### Employee Future Benefits

Liabilities are recorded for employee retiring allowance benefits as employees render services to earn those benefits.

Defined contribution plan accounting is applied to the multi-employer defined benefit pension plan because sufficient information is not available to apply defined benefit accounting. Accordingly, contributions are expensed as they become payable.

### Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

### Future Accounting Standards

#### International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board (AcSB) has confirmed that, on January 1, 2011, International Financial Reporting Standards (IFRS) will replace Canadian generally accepted accounting principles (Canadian GAAP) for publicly accountable enterprises. The Public Sector Accounting Board (PSAB) has amended the Introduction to the Public Sector Accounting Handbook to confirm the direction previously provided to Government Business Enterprises, which the Liquor Distribution Branch is classified as, to adhere to the standards for publicly accountable enterprises.

The Branch has embarked on a project to determine the changes required to comply with the direction of PSAB. The Branch will continue to review changes to standards and apply them, as applicable. Throughout the year, the Branch will revisit its timelines, processes and accounting policy choices or elections to ensure it is fully prepared to comply with PSAB directions.

## 3. INVENTORIES

At March 31, 2010, store inventories were \$59.1 million (2009 - \$57.6 million) and warehouse inventories were \$30.9 million (2009 - \$33.6 million).

## Notes to the Financial Statements

March 31, 2010

(Tabular amounts in \$000s)

### 4. PREPAID EXPENSES

Prepaid expenses include wine purchases. The Branch as part of its on-going business practices purchases select products in advance to secure delivery of these products up to three years in advance. These products are normally purchased in foreign currency and are translated to Canadian dollars at the rate of exchange in effect at the transaction date. At March 31, 2010, the Branch has recorded \$5.6 million (2009 - \$7.0 million) of prepaid wine futures for delivery in the following years:

Year Ending March 31	2011	3,466
	2012	2,068
	2013	22
		<u>5,556</u>
	Current portion	<u>(3,466)</u>
	<b>Long term</b>	<b><u>2,090</u></b>

### 5. INTANGIBLE ASSETS

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Intangible Assets	3,242	1,556	1,686	921
Construction in process	2,874	-	2,874	2,007
	<b>6,116</b>	<b>1,556</b>	<b>4,560</b>	<b>2,928</b>

### 6. PROPERTY, PLANT AND EQUIPMENT

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	1,068	-	1,068	1,068
Buildings	20,256	17,966	2,290	1,185
Leasehold improvements	55,670	27,278	28,392	26,156
Furniture, fixtures, vehicles & equipment	29,858	20,580	9,278	8,370
Office furnishings under capital lease	3,900	3,755	145	213
Information systems	85,078	74,890	10,188	10,636
Construction in process	6,261	-	6,261	5,382
	<b>202,091</b>	<b>144,469</b>	<b>57,622</b>	<b>53,010</b>

## Notes to the Financial Statements

March 31, 2010

(Tabular amounts in \$000s)

### 7. DEFERRED TENANT ALLOWANCES

Certain leasing agreements include incentives or landlord funding to be used towards expenditures such as tenant improvements or relocation expenses. The value of these benefits are recorded and amortized over the term of the lease.

Year Ending March 31	2011	85
	2012	85
	2013	85
	2014	85
	2015	79
	Subsequent years	<u>98</u>
		517
	Current portion	<u>(85)</u>
	<b>Long term</b>	<b><u><u>432</u></u></b>

### 8. TENANT IMPROVEMENT LOANS

As at March 31, 2010, the Branch has tenant improvements loans of \$0.6 million financed through landlords. The range of interest rates is 8% to 11.75% with loans expiring from May 2010 to June 2014. The principal payments due are as follows:

Year Ending March 31	2011	361
	2012	158
	2013	30
	2014	24
	2015	7
	Subsequent years	<u>7</u>
		580
	Current portion	<u>(361)</u>
	<b>Long term</b>	<b><u><u>219</u></u></b>

## Notes to the Financial Statements

March 31, 2010

(Tabular amounts in \$000s)

### 9. OBLIGATIONS UNDER CAPITAL LEASES

The following schedule includes the future minimum lease payments for vehicles and operating equipment.

		Vehicles	Equipment	Total
Year ending March 31	2011	59	32	91
	2012	58	-	58
	2013	58	-	58
	2014	53	-	53
	2015	28	-	28
	Subsequent years	4	-	4
	Total	260	32	292
	Imputed interest rate	8%	9%	
	Interest	(40)	(2)	(42)
	Current Portion	(44)	(30)	(74)
	<b>Long term</b>	<b>176</b>	<b>-</b>	<b>176</b>

### 10. DUE TO PROVINCE OF BRITISH COLUMBIA

The Branch does not maintain a separate bank account and uses the Province of British Columbia's financial and banking systems to process and record its transactions. The amount due to the Province of British Columbia represents the accumulated net financial transactions with the Province.

### 11. COMMITMENTS

Future commitments for operating leases for Branch premises and equipment are as follows:

Year Ending March 31	2011	25,435
	2012	22,539
	2013	19,592
	2014	15,773
	2015	12,072
	Subsequent years	25,210
		<b>120,621</b>

### Government Liquor Store Fees

In fiscal 2008, the Branch entered into an agreement with the Liquor Control Licensing Board (LCLB) to provide the LCLB a fee in the amount of \$1,400 per Government Liquor store, on an annual basis, plus administration costs. This amount is subject to an adjustment relative to the number of government liquor stores in operation. The term of this agreement is for five years. For fiscal 2009/10, the Branch paid \$275,800 for fees plus administration costs. Effective April 1, 2010, the LCLB fee structure will be based upon annual sales in each government liquor store. For fiscal 2010/11, the Branch will be required to pay approximately \$423,000 in fees, plus administration costs.

## Notes to the Financial Statements

March 31, 2010

(Tabular amounts in \$000s)

### 12. CONTINGENT ITEMS

The Branch is the defendant in legal actions and it is not expected that the ultimate outcome of these claims will have a material effect on the financial position of the Branch.

### 13. SALES

Total sales reported include sales to retail customers, licensed establishments, licensee retail stores and agency stores. These amounts do not include subsequent resale by licensed establishments, licensee retail stores and agency stores.

Year Ending March 31	2010	2009
Retail customers	1,160,255	1,136,225
Licensee retail stores	958,682	923,008
Agency stores	234,101	231,416
Licensed establishments	501,034	503,881
	<u>\$ 2,854,072</u>	<u>\$ 2,794,530</u>

### 14. EMPLOYEES' BENEFIT PLANS

The Branch and its employees contribute to the Public Service Pension Plan in accordance with the *Public Sector Pension Plans Act*. The British Columbia Pension Corporation administers the plan, including payment of pension benefits to employees to whom the act applies. The Public Service Pension Plan is a multi-employer, defined benefit plan. Under joint trusteeship, the risk and reward associated with the Plan's unfunded liability or surplus is shared between the employers and the plan members and will be reflected in their future contributions. Every three years an actuarial valuation is performed to assess the financial position of the plan and the adequacy of plan funding. The most recent actuarial valuation (March 31, 2008) determined that the Plan needed to implement a contribution rate increase to meet funding requirements of the *Pension Benefits Standards Act*. As a result, rates for employees and employers increased by 0.15 per cent as of April 1, 2009. The total amount paid into this pension plan by the Branch for the 2009/10 fiscal year was \$10.7 million for employer contributions (2009 - \$10.0 million).

Employees are also entitled to specific retirement benefits as provided for under collective agreements and terms of employment. The future liability for this obligation amounts to \$9,900,358 (2009 - \$9,790,708), which represents future employees' retirement benefits outside of The Plan and is included in accounts payable. The expense adjustment recorded in the year is \$109,650 (2009 - \$99,192).

### 15. CAPITAL MANAGEMENT

The Branch does not retain any equity – which is what the Branch considers to be its capital. Net income is returned to the Province of British Columbia. The Branch's objectives when managing capital are to optimize the use of capital to provide an appropriate return to the Province.

The Branch manages its capital based on the funds available to the Branch. The Branch has policies and processes in place that provides direction for the management of the funds. There has been no change to the Branch's capital management approach during the year. The Branch has no externally imposed capital requirements.

## Notes to the Financial Statements

March 31, 2010

(Tabular amounts in \$000s)

### 16. RELATED PARTY TRANSACTIONS

The Branch is related through common ownership to all Province of British Columbia ministries, agencies and Crown corporations. Transactions with these entities are generally considered to be in the normal course of operations and are recorded at the exchange amount, unless disclosed separately in these financial statements.

The Branch acts as an agent for the Ministry of Finance regarding the collection of social service taxes on liquor sales.

The financial statements include the following transactions with related parties of the Province of British Columbia and Crown corporations:

Year Ending March 31	2010	2009
Liabilities at March 31 with related parties include:		
Accounts payable	<u>\$389</u>	<u>\$89</u>
Payments to related parties were made for the following:		
Salaries, wages and benefits	30,670	26,852
Data processing	2,297	1,378
Light, water and fuel	1,581	1,684
Stationary and supplies	1,039	1,004
Telephone	893	2,558
Other operating expenses	770	1,029
Professional fees	497	432
Travel	95	6
Repairs and maintenance	92	48
Merchandising	86	100
Loss prevention	19	17
Rents	8	17
Warehouse equipment costs	2	2
	<u>\$ 38,049</u>	<u>\$ 35,127</u>
Payments from related parties were received for the following:		
Other income	<u>\$ -</u>	<u>\$62</u>

Other related party transactions have been disclosed elsewhere in the notes to the financial statements.

### 17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

The balance sheet for the prior year has been reclassified to conform with the presentation in the current year as a result of the retrospective implementation of CICA HB 3064 – Goodwill and Intangible Assets. As a result, property plant and equipment decreased by \$2.9 million which was offset by an increase in intangible assets. There was no impact to net income.