

**BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
FINANCIAL STATEMENTS
MARCH 31, 2000**

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the British Columbia Liquor Distribution Branch have been prepared by management in accordance with generally accepted accounting principles. Any financial information contained elsewhere in this 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 Liquor Distribution Branch audit division performs internal audits designed to test the adequacy and consistency of internal controls, practices and procedures.

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
Executive Director, Finance

Vancouver, British Columbia
June 9, 2000



Report of the Auditor General of British Columbia

*To the Minister of Small Business, Tourism and Culture,
Province of British Columbia:*

I have audited the balance sheet of the *British Columbia Liquor Distribution Branch* as at March 31, 2000 and the statements of operations, changes in advance due from the 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 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, 2000 and the results of its operations, changes in advance due from the Province of British Columbia and cash flows for the year then ended in accordance with generally accepted accounting principles.

*Victoria, British Columbia
June 9, 2000*

Wayne Strelieff, CA
Auditor General

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
BALANCE SHEET
 (in \$,000)

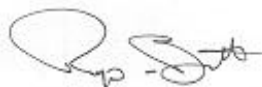
MARCH 31,	<u>2000</u>	<u>1999</u>
ASSETS		
CURRENT ASSETS		
Cash	1,194	9,101
Accounts receivable	6,381	5,260
Inventories	62,612	56,080
Prepaid expenses	1,343	1,269
Advance due from Province of British Columbia	<u>7,365</u>	<u>5,729</u>
	78,895	77,439
CAPITAL ASSETS (note 3)	<u>13,013</u>	<u>13,673</u>
	<u>91,908</u>	<u>91,112</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	89,408	88,386
Current portion of capital lease	<u>248</u>	<u>226</u>
	89,656	88,612
OBLIGATION UNDER CAPITAL LEASE (note 4)	<u>2,252</u>	<u>2,500</u>
	<u>91,908</u>	<u>91,112</u>

Commitments and Contingent Items (notes 6 & 7)

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

Approved by:


 General Manager



Executive Director, Finance

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
STATEMENT OF OPERATIONS
(in \$,000)

YEAR ENDED MARCH 31,	<u>2000</u>	<u>1999</u>
Sales (note 5)	1,663,323	1,640,781
Less commissions & discounts	<u>42,635</u>	<u>43,320</u>
	1,620,688	1,597,461
Cost of merchandise sold	<u>822,160</u>	<u>807,315</u>
Gross margin	798,528	790,146
Operating expenses (schedule)	<u>188,424</u>	<u>178,161</u>
	610,104	611,985
Other income (Note 8)	<u>7,283</u>	<u>3,870</u>
Net income	<u>617,387</u>	<u>615,855</u>

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
STATEMENT OF ADVANCE DUE FROM PROVINCE OF BRITISH COLUMBIA
(in \$,000)

YEAR ENDED MARCH 31,	<u>2000</u>	<u>1999</u>
Balance beginning of year	5,729	5,487
Net Income	(617,387)	(615,855)
Payments to Province of British Columbia	<u>619,023</u>	<u>616,097</u>
Balance end of year	<u>7,365</u>	<u>5,729</u>

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

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
STATEMENT OF CASH FLOWS
(in \$,000)

YEAR ENDED MARCH 31,	<u>2000</u>	<u>1999</u>
CASH FLOWS (TO) FROM OPERATING ACTIVITIES		
Cash receipts from customers	1,619,567	1,598,241
Cash payments to Provincial Treasury	(619,023)	(616,097)
Cash paid to suppliers and employees	(1,012,210)	(975,405)
Cash receipts from other income	7,222	3,816
Interest paid on capital lease	<u>(249)</u>	<u>(270)</u>
CASH FLOWS (TO) FROM OPERATING ACTIVITIES	<u>(4,693)</u>	<u>10,285</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital assets	(3,049)	(4,648)
Proceeds from disposal of capital assets	<u>61</u>	<u>54</u>
CASH FLOWS USED IN INVESTING ACTIVITIES	<u>(2,988)</u>	<u>(4,594)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on capital lease	<u>(226)</u>	<u>(205)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES	<u>(226)</u>	<u>(205)</u>
NET (DECREASE) INCREASE IN CASH	(7,907)	5,486
CASH BEGINNING OF YEAR	<u>9,101</u>	<u>3,615</u>
CASH END OF YEAR	<u>1,194</u>	<u>9,101</u>

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

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
SCHEDULE OF OPERATING EXPENSES
(in \$,000)

YEAR ENDED MARCH 31,	2000	1999
Salaries, wages and benefits	123,115	117,562
Rents	25,152	23,687
Professional Services	4,370	6,279
Repairs and maintenance	4,750	4,514
Freight to stores	4,967	4,460
Amortization	3,709	3,547
Light, water and fuel	3,306	3,099
Other operating expenses	5,410	2,716
Stationery and supplies	2,609	2,643
Merchandising	1,822	1,981
Bank charges	2,916	1,856
Data processing	2,320	1,739
Telephone	1,394	1,442
Travel	862	841
Loss prevention	863	775
Warehouse equipment costs	610	750
Interest on obligation under capital lease	249	270
	<u>188,424</u>	<u>178,161</u>

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2000
(TABULAR AMOUNTS IN \$,000)

1. STATUS OF THE BRANCH

The Liquor Distribution Branch (Branch) obtains its authority for operation from the *British Columbia Liquor Distribution Act* which is administered by the Minister responsible for Small Business, Tourism and Culture. 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 *Liquor Distribution Act*, the financial statements of the Branch are prepared in accordance with generally accepted accounting principles.

Significant accounting policies are as follows:

Inventories

Branch liquor inventories are valued at Duty Paid Value, which comprises supplier invoiced value, freight, duties and taxes.

Capital Assets

Capital assets are stated at cost and are amortized on a straight line basis as follows:

Buildings

7.5% per annum.

Leasehold Improvements

A minimum of 10% 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 annum.

Leases

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. Assets recorded under capital leases are amortized on a straight-line basis over the term of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2000
(TABULAR AMOUNTS IN \$,000)

2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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, as well as other transactions in which Provincial Government intervention is a component, 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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

3. CAPITAL ASSETS

	2000		1999	
	Cost	Accumulated Amortization	Net book Value	Net book Value
Land	1,114	---	1,114	1,114
Buildings	18,256	13,808	4,448	4,874
Leasehold Improvements	5,052	4,663	389	256
Furniture, Fixtures Vehicles & Equipment	28,837	23,712	5,125	5,251
Office Furnishings under capital lease	3,627	1,690	1,937	2,178
	<u>56,886</u>	<u>43,873</u>	<u>13,013</u>	<u>13,673</u>

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2000
(TABULAR AMOUNTS IN \$,000)

4. OBLIGATION UNDER CAPITAL LEASE

In the fiscal year 1994, the Branch entered into a 15 year capital lease expiring in the fiscal year 2008 for certain of its head office tenant improvements and office furnishings. The following is a schedule of future minimum lease payments under the capital lease expiring July 31, 2007, together with the balance of the obligation under capital lease:

Year ending March 31	2001	475
	2002	475
	2003	475
	2004	475
	2005	475
	Subsequent years	<u>1,105</u>
		3,480
Less: imputed interest at 10%		(980)
current portion		<u>(248)</u>
	TOTAL	<u>2,252</u>

5. 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.

6. COMMITMENTS

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

Year ending March 31	2001	17,467
	2002	14,457
	2003	11,815
	2004	10,072
	2005	8,007
	Subsequent years	<u>24,479</u>
	TOTAL	<u>86,297</u>

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
NOTES TO THE FINANCIAL STATEMENTS
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(TABULAR AMOUNTS IN \$,000)

7. CONTINGENT ITEMS

Agents' Stocking Program

The Branch has authorized suppliers' agents to import and warehouse liquor for subsequent purchase by the Branch. Under this program, the Branch has a contractual obligation to purchase all inventories held by the agent should the agent opt out of the program. As at March 31, 2000, the value of agents' inventories totalled approximately \$35.8 million (1999 - \$35.5 million) and the future liability for related federal excise taxes is \$7.6 million (1999 - \$8.6 million).

8. PENSION PLAN

The Branch and its employees contribute to the Public Service Pension Plan in accordance with the *Pension (Public Service) Act*. The Superannuation Commission of the Province of British Columbia administers the Plan, including the payment of pension benefits on behalf of employers and employees to whom the Act applies. The Plan is a defined benefit pension plan. The Province of British Columbia has statutory responsibility for any unfunded liability.

The most recent actuarial valuation (March 31, 1999) has determined the Plan is in a surplus position. As a result of this valuation the Superannuation Commission has refunded a portion of the Branch's employer contributions of \$4,754,000 (1999 - \$946,000), which was recorded as Other Income in these financial statements.

9. FINANCIAL INSTRUMENTS

The Liquor Distribution Branch's financial instruments consist of cash, accounts receivable, advance due from the Province of British Columbia, accounts payable and accrued liabilities and capital lease. Unless otherwise noted, it is management's opinion that the Branch is not exposed to significant interest, currency or credit risks arising from these financial instruments.