

## AUDITORS' REPORT

To the Directors of  
British Columbia Lottery Corporation:

We have audited the consolidated balance sheet of British Columbia Lottery Corporation as at March 31, 2000 and the consolidated statements of income, amounts due to Province of British Columbia, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2000 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Company Act, (British Columbia), we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.



Chartered Accountants

Kamloops, Canada  
April 19, 2000

# BRITISH COLUMBIA LOTTERY CORPORATION

## Consolidated Balance Sheet


March 31, 2000, with comparative figures for 1999

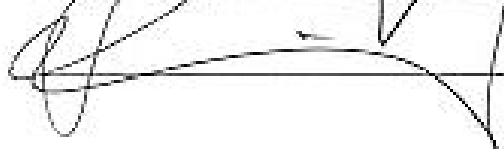
(In thousands of dollars)

	2000	1999
<b>Assets</b>		
Cash:		
Short-term investments	\$ 91,870	\$ 89,932
Bank	2,303	7,976
	<u>94,173</u>	<u>97,907</u>
Accounts receivable (note 3)	28,504	25,822
Receivable from Interprovincial Lottery Corporation	4,745	710
Prepaid expenses	6,346	3,873
Capital assets (note 4)	25,872	35,441
	<u>\$ 159,640</u>	<u>\$ 163,753</u>
<b>Liabilities</b>		
Prizes payable	\$ 57,804	\$ 64,822
Accounts payable and accrued liabilities	28,339	21,761
Due to Government of British Columbia	73,497	75,410
Due to Government of Canada	-	1,760
	<u>\$ 159,640</u>	<u>\$ 163,753</u>

See accompanying notes to consolidated financial statements.

Approved:

 Director

 Director

# BRITISH COLUMBIA LOTTERY CORPORATION

## Consolidated Statement of Income

Year ended March 31, 2000, with comparative figures for 1999

(in thousands of dollars)

	2000	1999
Revenues (note 5)	\$ 1,401,530	\$ 1,261,494
Direct expenses:		
Prizes	509,788	508,150
Retailer commissions	220,925	175,549
Ticket printing and bingo paper	15,192	15,397
	<u>745,905</u>	<u>699,096</u>
Revenues less direct expenses	655,625	562,398
Operating expenses (note 13):		
Administrative expenses	80,577	75,525
Amortization	19,752	18,773
Less: Interest and other income	(6,235)	(5,089)
	<u>94,094</u>	<u>89,209</u>
Income from operations	561,531	473,189
GST expense	29,530	17,227
Net income	<u>\$ 532,001</u>	<u>\$ 455,962</u>
Allocation of net income:		
Government of British Columbia	\$ 522,875	\$ 440,628
Government of Canada (note 6)	7,214	6,998
Payments pursuant to ministerial direction (note 7)	1,912	4,958
Payments to British Columbia Charitable Gaming Funding Society	-	3,378
	<u>\$ 532,001</u>	<u>\$ 455,962</u>

Segmented information (note 13)

See accompanying notes to consolidated financial statements.

# BRITISH COLUMBIA LOTTERY CORPORATION

## Consolidated Statement of Amounts Due to Government of British Columbia

Year ended March 31, 2000, with comparative figures for 1999

(in thousands of dollars)

	2000	1999
Balance, beginning of year	\$ 75,410	\$ 41,294
Net income	532,001	455,962
	607,411	497,256
Payments to Government of British Columbia	526,700	414,848
Allocation of income to Government of Canada	7,214	6,998
	533,914	421,846
Due to Government of British Columbia	\$ 73,497	\$ 75,410

See accompanying notes to consolidated financial statements.

# BRITISH COLUMBIA LOTTERY CORPORATION

## Consolidated Statement of Cash Flows

Year ended March 31, 2000, with comparative figures for 1999

(in thousands of dollars)

	2000	1999
Cash provided by (used in):		
Operations:		
Net income	\$ 532,001	\$ 455,962
Amortization, which does not involve cash	19,752	18,773
	<u>551,753</u>	<u>474,735</u>
Changes in non-cash operating items	(11,390)	(14,077)
	<u>540,363</u>	<u>460,658</u>
Financing:		
Payments to Government of British Columbia	(526,700)	(414,848)
Allocation of income to Government of Canada	(7,214)	(6,998)
	<u>(533,914)</u>	<u>(421,846)</u>
Investments:		
Additions to capital assets	(10,183)	(12,723)
	<u>(10,183)</u>	<u>(12,723)</u>
Increase (decrease) in cash	(3,734)	26,089
Cash, beginning of year	97,907	71,818
Cash, end of year	<u>\$ 94,173</u>	<u>\$ 97,907</u>

See accompanying notes to consolidated financial statements.

# BRITISH COLUMBIA LOTTERY CORPORATION

## Notes to Consolidated Financial Statements

Year ended March 31, 2000

---

### 1. Nature of the Corporation:

The British Columbia Lottery Corporation was incorporated under the Company Act of British Columbia on October 25, 1984, and is continued under the Lottery Corporation Act of British Columbia. The Corporation is an agent of the Crown.

The Province has designated the Corporation as the authority to conduct and manage lottery schemes within British Columbia and to co-operate in the conducting and marketing of national and regional lottery schemes with other Provinces of Canada.

The Corporation conducts and manages the following lottery schemes in British Columbia: DAILY 3, SCRATCH & WIN, BC/49, CLUB KENO, EXTRA, SPORTS ACTION, BREAKOPEN, STARSHIP BINGO, SUPERSTAR BINGO and casino games including slot machines and table games.

The Corporation is the regional marketing organization for the SPECIAL EVENT, LOTTO 6/49, LOTTO SUPER 7 and MEGA MILLIONS games in British Columbia. These games are joint undertakings by the provinces acting through the Interprovincial Lottery Corporation. The Interprovincial Lottery Corporation is incorporated under the Canada Business Corporations Act, and its shares are held by Her Majesty The Queen in right of the respective provinces.

### 2. Significant accounting policies:

#### (a) Basis of presentation:

- (i) The financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles.
- (ii) The consolidated financial statements include B.C. Lottotech International Inc., a wholly owned subsidiary of the British Columbia Lottery Corporation.

#### (b) Short-term investments

Short-term investments are valued at the lower of cost and market.

#### (c) Capital assets:

The Corporation's policy on capital purchases is that any major purchase which has a future useful life beyond the current year and which will materially affect income in the year purchased will be capitalized.

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements, page 2

Year ended March 31, 2000

---

## 2. Significant accounting policies (continued):

### (c) Capital assets (continued):

The Corporation's capital assets are recorded at their original cost and are amortized on the straight-line basis over their estimated useful lives, as follows:

Asset	Rate
Building and leasehold improvements	5 years
Furniture and equipment	5 years
Computer equipment	3 years
On-line gaming terminals	3 years
Breakopen vending machines	3 years
Signs and fixtures:	
Computer	3 years
Non-computer	5 years
Bingo equipment	3 years
Casino equipment	3 years

Amortization is prorated in the year the assets are put in use.

### (d) Revenue recognition:

#### Lottery games:

Revenue from the sale of lottery tickets and the associated selling costs and prize expenses are included in the statement of income in the period the ticket is sold.

#### Bingo games:

Revenue from the operation of electronic and linked Bingo and the associated selling costs and prize expenses are included in the statement of income in the same period the game is played.

#### Casinos:

Revenues from casino slot machines and table games are recorded on the statement of income, net of prizes paid. Related operating costs are recorded in the statement of income in the period they are incurred.

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements, page 3

Year ended March 31, 2000

---

## 2. Significant accounting policies (continued):

### (e) Prize expenses:

Lottery prize expenses are recorded based on the theoretical prize liability expected for each game. The actual expense incurred each year will vary from this estimate based on the nature of games of chance. Over a long period of time, it is expected that the actual prize expense will approximate the theoretical expense. Expired prize funds are to be paid out through bonus draws, promotions and retailer incentives.

### (f) Software development costs:

Software development costs are expensed in the period in which they are incurred.

### (g) Estimates:

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 those estimates.

### (h) Income taxes:

As the Corporation is an agent of the Crown it is not subject to federal or provincial corporate income taxes or corporate capital taxes.

## 3. Accounts receivable (in thousands of dollars):

---

	2000	1999
Retailers	\$ 25,748	\$ 23,535
Other	2,756	2,287
	<hr/>	<hr/>
	\$ 28,504	\$ 25,822

---



# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements, page 4

Year ended March 31, 2000

## 4. Capital assets (in thousands of dollars):

			2000	1999
	Cost	Accumulated amortization	Net	Net
Land	\$ 700	\$ -	\$ 700	\$ 700
Building and leasehold improvements	26,383	23,043	3,340	1,266
Furniture and equipment	3,522	3,280	242	227
Central system computer	22,674	21,799	875	1,688
On-line gaming terminals	35,552	35,179	373	3,111
Breakopen vending machines	7,484	6,958	526	1,450
Signs and fixtures	4,948	4,088	860	557
Bingo equipment	11,425	7,830	3,595	7,198
Casino equipment	31,948	16,587	15,361	19,238
	\$ 144,636	\$ 118,764	\$ 25,872	\$ 35,441

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements, page 5

Year ended March 31, 2000

## 5. Revenues (in thousands of dollars):

	2000	1999
<b>Lottery:</b>		
LOTTO 6/49	\$ 218,208	\$ 249,141
CLUB KENO	185,234	173,674
SCRATCH & WIN	182,091	176,587
BREAKOPEN	108,566	115,793
BC/49	75,603	85,618
EXTRA	64,908	63,402
LOTTO SUPER 7	43,030	12,940
SPORT LOTTERY	22,230	22,782
DAILY 3	4,465	4,740
SPECIAL EVENT	2,915	5,981
	<u>907,250</u>	<u>910,658</u>
<b>Bingo:</b>		
SUPERSTAR BINGO	16,833	18,972
STARSHIP BINGO	29,179	20,348
Paper	3,061	3,379
	<u>49,073</u>	<u>42,699</u>
<b>Casino - net win:</b>		
Slot machines	230,526	146,772
Table games	214,681	161,365
	<u>445,207</u>	<u>308,137</u>
<b>Total revenues</b>	<b>\$ 1,401,530</b>	<b>\$ 1,261,494</b>

## 6. Payments to Government of Canada:

The Interprovincial Lottery Corporation (I.L.C.) makes inflation-adjusted payments to the Government of Canada as a result of an agreement between the provincial governments and the Government of Canada on the withdrawal of the Government of Canada from the lottery field. The Corporation remits British Columbia's share of the above payments to I.L.C. Payments under this agreement are estimated to be \$ 7.2 million for the next fiscal year ending March 31, 2001.

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements, page 6

Year ended March 31, 2000

---

## 7. Payments pursuant to ministerial direction:

Pursuant to Section 22 of the Financial Administration Act, the Corporation has been directed to pay for the Problem Gambling Program costs administered by the Ministry for Children and Families (and the costs of the Gaming Policy Secretariat in 1998/99).

## 8. Interprovincial Lottery Corporation Expenses and Interest Revenue:

The Corporation's share of the Interprovincial Lottery Corporation (I.L.C.) prize and ticket printing costs for national games is recognized in the appropriate category of direct expenses. The Corporation's share of the I.L.C.'s interest income less operating expenses is included in interest and other income.

## 9. Lease obligations (in thousands of dollars):

The Corporation is committed to payments under operating leases for premises.

Minimum annual rental payments for the next five years are approximately as follows:

2001	\$	1,150
2002		932
2003		787
2004		592
2005		538

## 10. Pension plans:

An actuarial valuation was made as of March 31, 1997 by William M. Mercer Ltd., a firm of consulting actuaries, and then extrapolated to March 31, 2000. The market value of pension plan assets as at March 31, 2000 is approximately \$ 33.3 million (1999 - \$ 28.1 million) and the extrapolated present value of accrued pension benefits for services rendered to March 31, 2000 is approximately \$ 26.9 million (1999 - \$ 22.1 million), resulting in a net surplus of \$ 6.4 million (1999 - \$ 6.0 million).

The cost of the pension plan reflects management's best estimates of the pension plan's expected investment yields, salary escalations, mortality of members, terminations and the ages at which members will retire, and is therefore subject to measurement uncertainty.

## 11. Fair value of financial assets and liabilities:

The carrying value of accounts receivable, prizes payable, due to the Interprovincial Lottery Corporation, accounts payable and accrued liabilities and due to Government of British Columbia are recorded at cost which approximates fair value.

## 12. Comparative figures:

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current year.

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements, page 7

Year ended March 31, 2000

## 13. Segmented information (in thousands of dollars):

Sector of activity	Year ended March 31, 2000			
	<u>Lotteries</u>	<u>Casinos</u>	<u>Bingos</u>	<u>Consolidated</u>
Revenues	\$ 907,250	\$ 445,207	\$ 49,073	\$ 1,401,530
Direct expenses:				
Prizes	481,011	-	28,177	509,788
Retailer commissions	60,762	154,182	5,981	220,925
Ticket printing and bingo paper	12,642	-	2,550	15,192
	<u>555,015</u>	<u>154,182</u>	<u>36,708</u>	<u>745,905</u>
Revenue less direct expenses	352,235	291,025	12,365	655,625
Operating expenses:				
Administrative expenses	52,112	23,237	5,228	80,577
Amortization	7,066	8,856	3,830	19,752
Less: Interest and other income	(6,590)	279	76	(6,235)
	<u>52,588</u>	<u>32,372</u>	<u>9,134</u>	<u>94,094</u>
Income from operations	299,647	258,653	3,231	561,531
GST expense	11,837	16,373	1,320	29,530
Net income	\$ 287,810	\$ 242,280	\$ 1,911	\$ 532,001

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements, page 8

Year ended March 31, 2000

## 13. Segmented Information (continued) (in thousands of dollars):

Sector of activity	Year ended March 31, 1999			
	<u>Lotteries</u>	<u>Casinos</u>	<u>Bingos</u>	<u>Consolidated</u>
Revenues	\$ 910,657	\$ 308,137	\$ 42,700	\$ 1,261,494
Direct expenses:				
Prizes	486,072	-	22,078	508,150
Retailer commissions	59,850	110,505	5,194	175,549
Ticket printing and bingo paper	12,544	-	2,853	15,397
	<u>558,466</u>	<u>110,505</u>	<u>30,125</u>	<u>699,096</u>
Revenue less direct expenses	352,191	197,632	12,575	562,398
Operating expenses:				
Administrative expenses	54,039	15,446	6,040	75,525
Amortization	9,103	5,913	3,757	18,773
Less: Interest and other income	(5,267)	126	52	(5,089)
	<u>57,875</u>	<u>21,485</u>	<u>9,849</u>	<u>89,209</u>
Income from operations	294,316	176,147	2,726	473,189
GST expense	11,854	4,644	729	17,227
Net income	\$ 282,462	\$ 171,503	\$ 1,997	\$ 455,962