

Audited Consolidated Financial Statements of

**BRITISH COLUMBIA LOTTERY  
CORPORATION**

Year ended March 31, 2008



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## 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, 2008 and the consolidated statements of income, amounts due to Government 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 consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Kamloops, Canada  
April 18, 2008

# BRITISH COLUMBIA LOTTERY CORPORATION

## Consolidated Balance Sheet

March 31, 2008, with comparative figures for 2007

(in thousands of dollars)

	2008	2007
<b>Assets</b>		
Cash (note 3)	\$ 3,999	\$ (4,338)
Short-term investments	91,325	111,884
Accounts receivable (note 4)	80,440	82,443
Prepaid expenses	5,721	4,227
Inventory (note 5)	4,203	5,256
Accrued pension plan asset (note 6)	15,749	11,933
Property, plant and equipment (note 7)	115,051	119,910
	<b>\$ 316,488</b>	<b>\$ 331,315</b>
<b>Liabilities</b>		
Prizes payable	\$ 43,837	\$ 40,514
Accounts payable and accrued liabilities	46,319	53,652
Accrued post retirement benefit obligation (note 6)	31,767	27,454
Payable to Interprovincial Lottery Corporation	1,685	4,161
Due to Government of British Columbia	192,880	205,534
Commitments and contingencies (notes 14 and 15)		
	<b>\$ 316,488</b>	<b>\$ 331,315</b>

See accompanying notes to consolidated financial statements.

Approved:

  
\_\_\_\_\_, Director

  
\_\_\_\_\_, Director

# BRITISH COLUMBIA LOTTERY CORPORATION

## Consolidated Statement of Income

Year ended March 31, 2008, with comparative figures for 2007

(in thousands of dollars)

	2008	2007
Revenue (note 8):		
Lottery	\$ 976,910	\$ 997,414
Casino	1,322,123	1,208,891
Bingo	260,154	218,903
	<u>2,559,187</u>	<u>2,425,208</u>
Direct expenses:		
Prizes	647,059	650,846
Commissions	579,313	528,446
Ticket printing and bingo paper	17,041	19,586
	<u>1,243,413</u>	<u>1,198,878</u>
Revenue less direct expenses	<u>1,315,774</u>	<u>1,226,330</u>
Operating expenses:		
Administrative expenses	118,817	106,728
Amortization	64,908	64,024
Other expense	3,442	2,586
Marketing Trust Account (note 9):		
Marketing Trust Account income	(13,703)	(9,715)
Marketing Trust Account expenditures	13,703	9,715
Net income from operations	<u>1,128,607</u>	<u>1,052,992</u>
Non-operating income (expense):		
Net horse racing betting fees (note 10)	1,878	1,878
Integrated Illegal Gaming Enforcement Team expenses (note 11)	(1,600)	(1,600)
Goods and Services Tax expense (note 20)	(39,992)	(34,472)
Net income, being comprehensive income	<u>\$ 1,088,893</u>	<u>\$ 1,018,798</u>
Allocation of net income:		
Government of British Columbia	\$ 1,080,377	\$ 1,010,387
Government of Canada (note 12)	8,516	8,411
	<u>\$ 1,088,893</u>	<u>\$ 1,018,798</u>

Sector activity information (note 18)

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, 2008, with comparative figures for 2007

(in thousands of dollars)

	2008	2007
Balance, beginning of year	\$ 205,534	\$ 175,534
Net income	1,088,893	1,018,798
	1,294,427	1,194,332
Payments to Government of British Columbia	1,093,031	980,387
Payments to Government of Canada	8,516	8,411
	1,101,547	988,798
Due to Government of British Columbia	\$ 192,880	\$ 205,534

See accompanying notes to consolidated financial statements.

# BRITISH COLUMBIA LOTTERY CORPORATION

## Consolidated Statement of Cash Flows

Year ended March 31, 2008, with comparative figures for 2007

(in thousands of dollars)

	2008	2007
Cash provided by (used in):		
Operations:		
Net income	\$ 1,088,893	\$ 1,018,798
Adjustments for:		
Amortization of property, plant and equipment	64,908	64,024
Gain on disposal of property, plant and equipment	(518)	(485)
	<u>1,153,283</u>	<u>1,082,337</u>
Changes in non-cash operating items:		
Accounts receivable	2,003	(8,476)
Prepaid expenses	(1,494)	(1,636)
Inventory	1,053	(343)
Accrued pension plan asset	(3,816)	(5,287)
Prizes payable	3,323	(1,961)
Accounts payable and accrued liabilities	(7,331)	(13,443)
Accrued post retirement benefit obligation	4,313	3,913
Payable to Interprovincial Lottery Corporation	(2,476)	2,492
	<u>1,148,858</u>	<u>1,057,596</u>
Financing:		
Short-term investments	20,559	(28,006)
Payments to Government of British Columbia	(1,093,031)	(980,387)
Payments to Government of Canada	(8,516)	(8,411)
	<u>(1,080,988)</u>	<u>(1,016,804)</u>
Investments:		
Additions to property, plant and equipment	(60,454)	(43,927)
Proceeds on disposal of property, plant and equipment	921	1,365
	<u>(59,533)</u>	<u>(42,562)</u>
Increase (decrease) in cash	8,337	(1,770)
Cash (overdraft), beginning of year	(4,338)	2,568
Cash (overdraft), end of year	<u>\$ 3,999</u>	<u>\$ (4,338)</u>

See accompanying notes to consolidated financial statements.

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements

Years ended March 31, 2008 and 2007

(in thousands of dollars)

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## 1. Nature of the Corporation:

The British Columbia Lottery Corporation ("BCLC") is a Crown corporation. BCLC was incorporated under the *Company Act* of British Columbia on October 25, 1984, and is continued under the *Gaming Control Act* (August 2002). As an agent of the Crown, the Province has designated the Corporation as the authority to conduct, manage and operate lottery schemes on behalf of the Province, including lottery, casino and bingo. BCLC is also the regional marketing organization for national lottery games which are joint undertakings by the provinces acting through the Interprovincial Lottery Corporation.

## 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, as well as the Marketing Trust Account, a variable interest entity (see note 9).

### (b) Short-term investments:

Short-term investments are valued at fair value.

### (c) Inventory:

Inventory is recorded at the lower of cost, determined on a first-in, first-out basis, and net realizable value.

### (d) Property, plant and equipment:

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

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

Asset	Rate
Corporate facilities and equipment	5 years
Corporate information systems	3 years
Lottery gaming systems and equipment	5 years
Casino gaming systems and equipment	3 years
Bingo gaming systems and equipment	3 years

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset.

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2008 and 2007  
(in thousands of dollars)

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## 2. Significant accounting policies (continued):

### (d) Property, plant and equipment (continued):

If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

### (e) Employee future benefits:

The Corporation has defined benefit pension plans covering substantially all of its employees. The benefits are based on years of service and the highest 60 consecutive months of pensionable earnings. The cost of this program is funded by employee and employer contributions.

The Corporation also sponsors post retirement benefit life insurance and health care plans for substantially all retirees. The Corporation measures the costs of its obligation based on estimates provided by independent actuaries.

The Corporation accrues its obligations under employee benefit plans as the employees render the services necessary to earn the pension and other employee future benefits. The Corporation has adopted the following policies:

- The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method pro rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages and expected health care costs.
- For the purpose of calculating expected return on plan assets, those assets are valued at fair value.
- Past service costs from plan amendments or initiations are amortized on a straight-line basis over the expected average remaining service life ("EARSL") of active members expected to receive benefits under the plan.
- Cumulative gains and losses in excess of 10% of the greater of the accrued benefit obligation and the market value of plan assets are amortized over the average remaining service period of active members expected to receive benefits under the plans. The EARSL for the Registered Plan is 13 years.
- An unfunded liability may be amortized over no more than 15 years through special payments as required under the Pension Benefits Standards Act. A funding excess may be applied immediately to reduce required employer current service contributions, however, the reduction in contributions may not cause the funding excess to drop below 5% of the pension plan benefit obligation. Further, the use of a funding excess must be amortized over a minimum of 5 years.



# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2008 and 2007

(in thousands of dollars)

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## 2. Significant accounting policies (continued):

### (f) Revenue recognition:

#### Lottery games:

The recognition of lottery sales and the corresponding direct expenses for online games is at the date of the draw. Receipts for lottery tickets sold before March 31 for draws held subsequent to that date are recorded as deferred revenue, and the associated direct costs are recorded as prepaid expenses.

The recognition of lottery sales and the corresponding direct expenses for all instant ticket games is at the time of the transfer of legal ownership to the retailer.

#### Bingo games:

Revenue from the operation of paper, electronic, linked, and handheld Bingo and the associated selling costs and prize expenses are included in the consolidated statement of income in the same period the game is played. Revenue from bingo slot machines is recorded in the consolidated statement of income, net of prizes paid, in the same period the game is played. Related operating costs are recorded in the consolidated statement of income in the period they are incurred.

#### Casinos:

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

### (g) Prize expenses:

Lottery prize expenses are recorded based on the actual prize liability experienced for each online game, and theoretical prize liabilities for instant ticket games.

For instant ticket games, the actual expense incurred each year will vary from theoretical estimates based on the nature of games of chance. Over the life of a game, the actual prize expense will equal the theoretical expense.

Expired prize funds are to be paid out to the player in the form of bonus prizes and/or bonus draw promotions.

### (h) Software development costs:

Software development costs are deferred if they meet certain criteria specified by Canadian generally accepted accounting principles; otherwise they are expensed as incurred.

### (i) 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.

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2008 and 2007

(in thousands of dollars)

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## 2. Significant accounting policies (continued):

(j) 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. Significant areas of estimate include pension plan assets, liabilities and expenses, and Goods and Services Tax liability and expense. Actual results could differ from those estimates.

(k) Accounting pronouncements adopted during the year:

Effective April 1, 2007, the Corporation adopted the following CICA Handbook sections, which became effective for the Corporation on that date:

Section 3855 "Financial Instruments – Recognition and Measurement", which prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are subsequently measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost. Upon adoption of this standard, the Corporation designated or classified its financial assets and liabilities as follows:

- Cash, short-term investments, and bingo and casino cash floats were designated as held for trading and measured at their fair value, with changes in fair value recognized in the consolidated statement of income;
- Accounts receivable have been classified as loans and receivables and are measured at amortized cost; and
- Accounts payable and accrued liabilities, prizes payable and payable to Interprovincial Lottery Corporation have been classified as other financial liabilities and are measured at amortized cost.

In accordance with the transitional provisions of Section 3855, the Corporation has applied the new accounting policy retrospectively, without restatement of prior period's financial statements and there was no effect on the financial statements on adoption.

Section 3861 "Financial Instruments--Disclosure and Presentation" establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. The adoption of this Section has not significantly impacted the Corporation's financial statements. Disclosure of the financial significance of financial instruments to the Corporation's financial position, performance and cash flows, and to assist in assessing the amounts, timing and certainty of future cash flows associated with those instruments is located in note 17.

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2008 and 2007

(in thousands of dollars)

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## 2. Significant accounting policies (continued):

- (k) Accounting pronouncements adopted during the year (continued):

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

The Corporation has determined that no items should be reported in other comprehensive income, and therefore net income is equal to comprehensive income.

- (l) Accounting pronouncements issued but not yet effective:

The following new CICA Handbook sections have been issued and become effective for the Corporation, as of its fiscal year commencing April 1, 2008:

Section 3031 "Inventories", which prescribes the accounting treatment for inventories, particularly the determination of inventory cost and its subsequent recognition as an expense, including any write-down to net realizable value. The adoption of this section is not expected to significantly impact the Corporation's financial statements.

Section 3862 "Financial Instruments – Disclosure" and Section 3863 Financial Instruments – Presentation", which further expand on the standards for financial statement disclosure and presentation of financial instruments prescribed in Section 3861 above.

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2008 and 2007  
(in thousands of dollars)

### 3. Cash:

	2008	2007
Bank overdraft	\$ (2,912)	\$ (10,501)
Marketing Trust Account	6,911	6,163
	\$ 3,999	\$ (4,338)

Cash includes an amount of \$6,911 (2007 - \$6,163) held in trust in accordance with the Casino Operational Services Agreement (COSA) between BCLC and the participating Service Providers.

A corresponding trust liability in the amount of \$6,911 (2007 - \$6,163) is also included in accounts payable and accrued liabilities (see note 9).

### 4. Accounts receivable:

	2008	2007
Trade accounts receivable:		
Lottery retailers	\$ 16,157	\$ 24,499
Casino service providers	22,251	15,698
Bingo service providers	6,267	3,426
	44,675	43,623
Casino cash floats	34,825	32,075
Other	940	6,745
Total accounts receivable	\$ 80,440	\$ 82,443

Casino cash floats provided by the Corporation are secured by Irrevocable Standby Letters of Credit.

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2008 and 2007

(in thousands of dollars)

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## 5. Inventory:

The major components of inventory are instant tickets, materials, and supplies.

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	2008	2007
Instant tickets	\$ 3,375	\$ 4,034
Online supplies	91	225
Casino mystery bonus	498	561
Bingo paper and supplies	234	431
Other inventory	5	5
	\$ 4,203	\$ 5,256

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# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2008 and 2007  
(in thousands of dollars)

## 6. Employee future benefits:

The Corporation has a defined benefit pension plan (RPP) and a post retirement benefit life insurance and health care plan covering substantially all of its employees.

Information about the Corporation's defined benefit plans is as follows:

	Pension Plans		Post Retirement Benefit Plans	
	2008	2007	2008	2007
Accrued benefit obligation:				
Balance at beginning of year	\$ 81,502	\$ 68,658	\$ 39,919	\$ 33,128
Current service cost	3,841	2,912	2,102	1,792
Interest cost	4,401	3,813	2,256	2,073
Employee contributions	1,644	1,451	–	–
Past service cost	–	–	–	–
Benefits paid	(3,125)	(3,493)	(499)	(458)
Special termination benefits	725	–	–	–
Actuarial loss (gain)	(13,133)	8,161	(8,258)	3,384
Balance at end of year	75,855	81,502	35,520	39,919
Plan assets:				
Fair value at beginning of year	78,053	65,829	–	–
Actual return on plan assets	(1,347)	6,889	–	–
Employer contributions	7,794	7,377	499	458
Employee contributions	1,644	1,451	–	–
Benefits paid	(3,125)	(3,493)	(499)	(458)
Balance at end of year	83,019	78,053	–	–
Funded status – excess (deficiency)	7,164	(3,449)	(35,520)	(39,919)
Employer contributions after measurement date	176	179	–	–
Unamortized past service cost	645	762	(4,890)	(5,297)
Unamortized net actuarial loss	7,764	14,441	8,643	17,762
Accrued pension plan benefit asset (liability)	\$ 15,749	\$ 11,933	\$ (31,767)	\$ (27,454)

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2008 and 2007  
(in thousands of dollars)

## 6. Employee future benefits (continued):

Plan assets by asset category:

	2008	2007
Equity securities	66%	64%
Debt securities	34%	36%
	100%	100%

Every three years an actuarial valuation is performed to assess the financial position of the pension plan. The most recent actuarial valuation of the pension plan for funding purposes was made as of March 31, 2006 by Mercer Human Resource Consulting, a firm of consulting actuaries. The next required valuation will be as of March 31, 2009, with results available in late 2009. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations are as follows:

	Pension Plans		Post Retirement Benefit Plans	
	2008	2007	2008	2007
At beginning of period:				
Discount rate	5.3%	5.5%	5.4%	5.5%
Expected rate of return on plan assets	7.0%	7.0%	–	–
Rate of compensation increase	5.0%	3.0%	–	–
Health care cost trend rate:				
2007/2008	–	–	6.60%	7.02%
Ultimate	–	–	4.50%	4.52%
Year ultimate reached	–	–	2012	2012
At end of period:				
Discount rate	6.25%	5.3%	6.35%	5.4%
Rate of compensation increase	5.0%	5.0%	–	–
Health care cost trend rate:				
2007/2008	–	–	6.24%	6.60%
Ultimate	–	–	4.50%	4.50%
Year ultimate reached	–	–	2012	2012

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2008 and 2007  
(in thousands of dollars)

## 6. Employee future benefits (continued):

The Corporation's net benefit plan expense is as follows:

	Pension Plans		Post Retirement Benefit Plans	
	2008	2007	2008	2007
Current service cost, net of employees' contributions (including provision for plan expenses)	\$ 3,841	\$ 2,912	\$ 2,102	\$ 1,792
Interest cost	4,401	3,813	2,256	2,073
Actual return on plan assets	1,347	(6,889)	–	–
Actuarial loss (gain) on accrued benefit obligation	(13,133)	8,161	(8,258)	3,384
Special termination benefits	725	–	–	–
Costs arising in the year	(2,819)	7,997	(3,900)	7,249
Differences between costs arising in the year and costs recognized in the year in respect of:				
Return on plan assets	(6,993)	2,194	–	–
Actuarial loss (gain)	13,670	(8,039)	9,119	(2,471)
Plan amendment	117	117	–	–
(Negative) past service cost	–	–	(407)	(407)
Net benefit cost recognized	\$ 3,975	\$ 2,269	\$ 4,812	\$ 4,371



# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2008 and 2007  
(in thousands of dollars)

## 7. Property, plant and equipment:

			2008	2007
	Cost	Accumulated amortization	Net	Net
Land	\$ 700	\$ –	\$ 700	\$ 700
Corporate facilities and equipment	29,026	26,116	2,910	2,722
Corporate information systems	30,811	25,319	5,492	6,031
Lottery gaming systems and equipment	107,651	70,204	37,447	39,642
Casino gaming systems and equipment	197,233	145,166	52,067	57,801
Bingo gaming systems and equipment	54,571	38,136	16,435	13,014
	\$ 419,992	\$ 304,941	\$ 115,051	\$ 119,910

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2008 and 2007  
(in thousands of dollars)

## 8. Revenue:

	2008	2007
Lottery:		
Keno	\$ 224,806	\$ 230,023
Scratch & Win	165,324	169,684
Lotto 6/49	229,758	212,227
Lotto Super 7	62,086	86,243
Pull Tab	64,562	70,455
Extra	52,030	57,238
BC/49	53,044	53,105
Sports Action	49,371	45,259
Millionaire Life	7,854	11,555
Pacific Hold'em	45,410	35,558
Special Event	3,726	4,195
Payday	3,159	7,108
Racetrax	-	1,564
Sports Funder	14,754	12,453
Interactives	1,026	747
	976,910	997,414
Casino - net win:		
Slot machines	973,908	869,855
Poker	22,420	20,794
Table games	325,795	318,242
	1,322,123	1,208,891
Bingo:		
Bingo Paper	74,295	82,685
Electronic Bingo	77,085	70,234
Linked Bingo	10,305	11,078
Handheld Bingo	11,752	13,222
Bingo slot machines – net win	86,717	41,684
	260,154	218,903
<b>Total revenue</b>	<b>\$ 2,559,187</b>	<b>\$ 2,425,208</b>

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2008 and 2007  
(in thousands of dollars)

## 9. Marketing Trust Account (MTA):

The Marketing Trust Account was implemented between BCLC and Casino Service Providers who are provided with more than 300 slot machines. Under the terms of the Casino Operational Services Agreement (COSA), Service Providers are required to contribute to this account for the purpose of funding casino marketing programs promoting the Corporation's casinos in a socially responsible manner.

In the event that the amount contributed to the Trust Account by the Casino Service Providers in any fiscal year of BCLC commencing April 1, 2006 is not expended on marketing programs promoting the casinos by the last day of the following fiscal year of BCLC, any such balance shall be repaid to the Casino Service Providers.

The Corporation has included the activities of the MTA in its consolidated financial statements pursuant to Accounting Guideline 15—Consolidation of Variable Interest Entities.

Amounts related to the MTA are as follows:

	2008	2007
MTA contributions and interest	\$ 14,451	\$ 12,400
MTA unearned contributions	(748)	(2,685)
MTA income	13,703	9,715
MTA expenditures	(13,703)	(9,715)
Net MTA income	\$ —	\$ —

Amounts included in cash (note 3) and accounts payable and accrued liabilities related to the MTA are as follows:

	2008	2007
Opening MTA trust assets and liabilities	\$ 6,163	\$ 3,478
Current year unearned MTA contributions	748	2,685
Ending MTA trust assets and liabilities	\$ 6,911	\$ 6,163

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2008 and 2007  
(in thousands of dollars)

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## 10. Net horse racing betting fees:

Pursuant to section 16 of the Gaming Control Act, BCLC is responsible for the collection and distribution of horse racing fees in the province of British Columbia. The rates of fee collection and the responsibility for their distribution are set forth in the Act. The amount shown as net horse racing betting fees in these financial statements is the portion of those fees collected by BCLC and then remitted to Government, and approximates the cost of regulating the industry as determined by the Gaming Policy Enforcement Branch (GPEB).

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	2008	2007
Revenue collected from the horse racing industry	\$ 6,656	\$ 6,588
Less: revenue returned to the horse racing industry	(4,778)	(4,710)
Net horse racing betting fees	\$ 1,878	\$ 1,878

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## 11. Integrated Illegal Gaming Enforcement Team expenses:

In February 2003, based on direction from the provincial government, the Integrated Illegal Gaming Enforcement Team (IIGET) was established. The expenditures required to fund the IIGET are provided by BCLC pursuant to a Sponsoring Agreement with the Province. IIGET is a specialized division of the Royal Canadian Mounted Police that works cooperatively with GPEB to provide a comprehensive and integrated approach to the investigation and enforcement of the criminal code as it relates to illegal gaming activities in British Columbia.

## 12. Payments to Government of Canada:

The Interprovincial Lottery Corporation (ILC) 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 ILC.

## 13. Interprovincial Lottery Corporation expenses and interest revenue:

The Corporation's share of the ILC prize and ticket printing costs for national games is recognized as a direct expense. The Corporation's share of the ILC's interest income less operating expenses is included in other expense.

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2008 and 2007  
(in thousands of dollars)

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## 14. Commitments:

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

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

2009	\$ 3,285
2010	3,099
2011	2,639
2012	1,033
2013	922

## 15. Contingencies:

The Corporation has been named a defendant in several lawsuits. In the opinion of management, these matters are without substantial merit and no provision has been made for them in the accounts.

The Corporation periodically enters into agreements with suppliers that include limited indemnification obligations. These guarantees are customary in the industry and typically require the Corporation to compensate the other party for certain damages and costs incurred as a result of third party claims. The nature of these agreements prevents the Corporation from making a reasonable estimate of the maximum potential amount it could be required to pay its suppliers. Historically, the Corporation has not made any significant indemnification payments under such agreements and no amount has been accrued in the financial statements for these indemnification guarantees.

## 16. Related party transactions:

The Corporation is related to various other government agencies, ministries and Crown corporations. All transactions with these related parties 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.

## 17. Financial instruments:

The carrying values of cash, accounts receivable, prizes payable, accounts payable and accrued liabilities, and the payable to the Interprovincial Lottery Corporation approximate their fair value due to the relatively short periods to maturity of these items or because they are receivable or payable on demand.

Short-term investments, and bingo and casino cash floats are recorded at their fair value.

In management's opinion, the maximum credit risk exposure for all financial assets is the carrying amount of those assets.

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2008 and 2007  
(in thousands of dollars)

## 18. Sector activity information:

Year ended March 31, 2008					
	<u>Lottery</u>	<u>Casino</u>	<u>Bingo</u>	<u>Horse Racing</u>	<u>Consolidated</u>
Revenue	\$ 976,910	\$ 1,322,123	\$ 260,154	\$ –	\$ 2,559,187
Direct expenses:					
Prizes	542,790	–	104,269	–	647,059
Commissions	63,765	450,426	65,122	–	579,313
Ticket printing and bingo paper	15,245	–	1,796	–	17,041
	621,800	450,426	171,187	–	1,243,413
Revenue less direct expenses	355,110	871,697	88,967	–	1,315,774
Operating expenses:					
Administrative expenses	64,213	43,444	11,160	–	118,817
Amortization	15,199	40,945	8,764	–	64,908
Other expense	2,006	1,031	405	–	3,442
Marketing Trust Account:					
Marketing Trust Account income	–	(13,703)	–	–	(13,703)
Marketing Trust Account expenditures	–	13,703	–	–	13,703
Net income from operations	273,692	786,277	68,638	–	1,128,607
Non-operating income (expense):					
Net horse racing betting fees	–	–	–	1,878	1,878
Integrated Illegal Gaming Enforcement Team expenses	(360)	(1,110)	(130)	–	(1,600)
Goods and Services Tax expense	(11,310)	(23,402)	(5,280)	–	(39,992)
Net income	\$ 262,022	\$ 761,765	\$ 63,228	\$ 1,878	\$ 1,088,893

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2008 and 2007  
(in thousands of dollars)

## 18. Sector activity information (continued):

Year ended March 31, 2007					
	<u>Lottery</u>	<u>Casino</u>	<u>Bingo</u>	<u>Horse Racing</u>	<u>Consolidated</u>
Revenue	\$ 997,414	\$ 1,208,891	\$ 218,903	\$ –	\$ 2,425,208
Direct expenses:					
Prizes	543,501	–	107,345	–	650,846
Commissions	67,836	408,897	51,713	–	528,446
Ticket printing and bingo paper	17,575	–	2,011	–	19,586
	628,912	408,897	161,069	–	1,198,878
Revenue less direct expenses	368,502	799,994	57,834	–	1,226,330
Operating expenses:					
Administrative expenses	58,790	39,782	8,156	–	106,728
Amortization	13,777	43,285	6,962	–	64,024
Other expense	1,161	462	963	–	2,586
Marketing Trust Account:					
Marketing Trust Account income	–	(9,715)	–	–	(9,715)
Marketing Trust Account expenditures	–	9,715	–	–	9,715
Net income from operations	294,774	716,465	41,753	–	1,052,992
Non-operating income (expense):					
Net horse racing betting fees	–	–	–	1,878	1,878
Integrated Illegal Gaming Enforcement Team expenses	(409)	(1,090)	(101)	–	(1,600)
Goods and Services Tax expense	(12,712)	(16,813)	(4,947)	–	(34,472)
Net income	\$ 281,653	\$ 698,562	\$ 36,705	\$ 1,878	\$ 1,018,798

# BRITISH COLUMBIA LOTTERY CORPORATION

Notes to Consolidated Financial Statements (continued)

Years ended March 31, 2008 and 2007  
(in thousands of dollars)

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## **19. Comparative figures:**

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

## **20. Goods and Services Tax (GST):**

As a prescribed GST registrant, BCLC makes GST remittances to the federal government pursuant to the Games of Chance regulations of the Excise Tax Act. The Corporation's net tax for a reporting period is calculated using net tax attributable to both gaming and non-gaming activities. The net tax attributable to gaming activities results in a 10 percent tax burden on most taxable gaming expenditures incurred by the Corporation. The net tax attributable to non-gaming activities is calculated similar to any other GST registrant in Canada.