BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH

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

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

As at March 31,	**2010**	**2009**
		(note 17)
ASSETS		
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
	106,299	103,480
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
	170,571	162,273
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	155,451	159,950
Current portion of deferred tenant allowances (note 7)	85	96
Current portion of tenant improvement loans (note 8)	361	436
Current portion of obligation under capital lease (note 9)	74	68
Due to Province of British Columbia (note 10)	13,773	375
	169,744	160,925
LONG TERM LIABILITIES		
Deferred tenant allowances (note 7)	432	517
Tenant improvement loans (note 8)	219	581
Obligation under capital lease (note 9)	176	250
	170,571	162,273

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	877,276	891,117

BRITISH COLUMBIA LIQUOR DISTRIBUTION BRANCH
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	(13,773)	(375)

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**
CASH FLOWS FROM OPERATING ACTIVITIES		
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)
CASH FLOWS FROM OPERATING ACTIVITIES	25,600	40,160
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and 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 and equipment	59	203
CASH FLOWS (USED IN) INVESTING ACTIVITIES	(18,874)	(16,349)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on capital lease	(68)	(61)
Tenant improvement loans	(436)	(601)
CASH FLOWS (USED IN) FINANCING ACTIVITIES	(504)	(662)
NET INCREASE IN CASH	6,222	23,149
CASH (BANK INDEBTEDNESS) BEGINNING OF YEAR	502	(22,647)
CASH END OF YEAR	6,724	502

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
	275,875	269,954

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

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.

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.

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.

(Tabular amounts in $000s)

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).

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
		5,556
	Current portion	(3,466)
	Long term	2,090

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
	6,116	1,556	4,560	2,928

(Tabular amounts in $000s)

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
	202,091	144,469	57,622	53,010

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	98
		517
	Current portion	(85)
	Long term	432

(Tabular amounts in $000s)

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
		580
Current portion		(361)
Long term		219

9. OBLIGATION 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)
Long term		176	-	176

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.

(Tabular amounts in $000s)

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
		120,621

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.

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.

	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
	2,854,072	2,794,530

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% 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.

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:

(Tabular amounts in $000s)

Year Ending March 31	2010	2009
Liabilities at March 31 with related parties include:		
Accounts payable	$ 389	$ 89
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
	$ 38,049	$ 35,127
Payments from related parties were received for the following:		
Other income	$ -	$ 62

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.