

Financial Statements of

**BC LIQUOR
DISTRIBUTION BRANCH**

For the year ended March 31, 2018



INDEPENDENT AUDITOR'S REPORT

To the Minister of Attorney General, Province of British Columbia

I have audited the accompanying financial statements of the British Columbia Liquor Distribution Branch, which comprise the statement of financial position as at March 31, 2018, and the statement of comprehensive income, statement of due to the Province of British Columbia, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

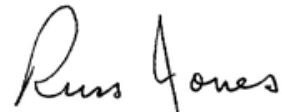
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the British Columbia Liquor Distribution Branch as at March 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Victoria, British Columbia
May 15, 2018



Russ Jones, FCPA, FCA
Deputy Auditor General



BC LIQUOR DISTRIBUTION BRANCH

Statement of Comprehensive Income

(in thousands of dollars)

For the years ended March 31, 2018 with comparative information for 2017

	Note	2018	2017
Revenue	4	\$ 3,498,007	\$ 3,331,532
Cost of sales		(2,030,641)	(1,921,582)
Gross Profit		1,467,366	1,409,950
Expenses:			
Administration	5, 14	(353,381)	(331,990)
Marketing	5	(5,269)	(5,150)
Transportation	5	(1,397)	(1,339)
		(360,047)	(338,479)
Net operating income		1,107,319	1,071,471
Other income		12,238	11,775
Net income and comprehensive income		\$ 1,119,557	\$ 1,083,246

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

BC LIQUOR DISTRIBUTION BRANCH

Statement of Due to the Province of British Columbia
(in thousands of dollars)

For the years ended March 31, 2018 with comparative information for 2017

	Note	2018	2017
Balance beginning of year		\$ (28,510)	\$ (12,434)
Net income and comprehensive income		(1,119,557)	(1,083,246)
Net payments to the Province of British Columbia	12	1,093,192	1,067,170
Balance end of year		\$ (54,875)	\$ (28,510)

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

BC LIQUOR DISTRIBUTION BRANCH

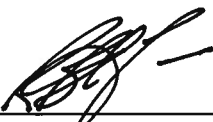
Statement of Financial Position
(in thousands of dollars)

For the years ended March 31, 2018 with comparative information for 2017

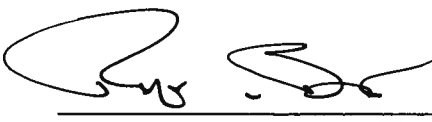
	Note	2018	2017
Assets			
Current:			
Cash		\$ 29,294	\$ 23,671
Accounts receivable	6	18,350	8,784
Prepaid expenses	7	11,568	7,594
Inventories	8	121,940	112,357
		181,152	152,406
Non-current assets:			
Prepaid expenses	7	1,524	759
Intangible assets	9	40,425	32,697
Property and equipment	10	68,551	47,788
		110,500	81,244
Total assets		\$ 291,652	\$ 233,650
Liabilities			
Current:			
Accounts payable and accrued liabilities	11, 14, 15	\$ 203,657	\$ 174,566
Due to Province of British Columbia	12	54,875	28,510
		258,532	203,076
Non-current liabilities:			
Other long-term liabilities	13, 14, 15	33,120	30,574
		33,120	30,574
Total liabilities		\$ 291,652	\$ 233,650

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

Approved for issue on May 14, 2018 by:



R. Blain Lawson
General Manager and Chief Executive Officer



Roger M. Bissoondatt, CPA, CA, CMA
Chief Financial Officer

BC LIQUOR DISTRIBUTION BRANCH

Statement of Cash flows
(in thousands of dollars)

For the years ended March 31, 2018 with comparative information for 2017

	Notes	2018	2017
Cash provided by (used in):			
Operating:			
Net income and comprehensive income		\$ 1,119,557	\$ 1,083,246
Items not involving cash:			
Depreciation and amortization		18,696	14,815
Loss on retirement/disposal of property and equipment		504	330
Rent and lease amortization		1,093	372
Accrued employee benefits		1,453	2,011
Change in non-cash operating working capital:			
Long term assets		(765)	1,096
Working capital		5,968	(2,009)
		1,146,506	1,099,861
Investing:			
Acquisition of property and equipment	10	(34,025)	(11,478)
Acquisition of intangible assets	9	(13,695)	(15,258)
Proceeds from disposal of property and equipment		29	26
		(47,691)	(26,710)
Financing:			
Net payments to the Province of British Columbia	12	(1,093,192)	(1,067,170)
		(1,093,192)	(1,067,170)
Increase in cash		5,623	5,981
Cash, beginning of year		23,671	17,690
Cash, end of year		\$ 29,294	\$ 23,671

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

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2018

1. Description of operations

The British Columbia Liquor Distribution Branch (“the LDB”) is one of two branches of the Province of British Columbia (“the Province”) responsible for the beverage alcohol industry in British Columbia and reports to the Ministry of the Attorney General.

The LDB obtains its authority for operation from the British Columbia Liquor Distribution Act (“the Act”). As stated in Section 2 of the Act, the LDB 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).

The LDB is reported in the public accounts on a modified equity basis, in a manner similar to a commercial Crown corporation. The LDB does not reflect any equity on its balance sheet as all net income is returned to the Province of British Columbia.

The LDB is exempt from Canadian federal and British Columbia provincial income taxes.

2. Basis of accounting

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis. The accounts have been prepared on a going concern basis.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the LDB’s functional currency. All financial information has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2018

2. Basis of accounting (continued)

(d) Use of estimates and judgments (continued)

In determining and applying accounting policies, judgment is often required where the choice of specific policy, assumption or account estimate to be followed could materially affect the reported results or net position of the LDB, should it later be determined that a different choice would be more appropriate.

Management considers the following to be areas of significant judgment and estimation for the LDB due to greater complexity and/or being particularly subject to the exercise of judgment:

(i) Property and equipment and intangible assets

The determination of the useful economic life and residual values of property and equipment and intangible assets is subject to management estimation. The LDB regularly reviews all of its depreciation and amortization rates and residual values to take account of any changes in circumstances, and any changes that could affect prospective depreciation and amortization charges and asset carrying values.

(ii) Employee benefits – Retiring allowances

Employees who are eligible to retire and receive pension benefits under the Public Service Pension Plan are granted full vacation entitlement for the final calendar year of service. The LDB recognizes a liability and an expense for retiring allowances when benefits are earned and not when these benefits are paid. These obligations are valued by independent actuaries.

3. Significant accounting policies

The accounting policies below have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

(a) Foreign currency translation

The LDB 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 the transaction date. Any foreign currency denominated monetary assets and liabilities are stated using the prevailing rate of exchange at the date of the statement of financial position. The resulting foreign currency gains or losses are recognized on a net basis within administrative expenses in the statement of comprehensive income.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2018

3. Significant accounting policies (continued)

(b) Financial instruments

Financial assets are recognized when the LDB has rights or other access to economic benefits. Such assets consist of cash or a contractual right to receive cash or another financial asset. The LDB derecognizes a financial asset when the contractual rights to the cash flows from the asset have expired or have been transferred and all the risks and rewards of ownership are substantially transferred.

All of the LDB's financial assets are designated as loans and receivables and deposits. The LDB initially recognizes loans and receivables and deposits on the date that they originate.

Financial liabilities are recognized when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset. Financial liabilities are derecognized when they are extinguished.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the LDB has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The LDB has the following categories of financial assets and financial liabilities:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the LDB provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities of greater than 12 months after the statement of financial position date which are classified as non-current assets. Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any provision for impairment. Any resulting income or expense is recognized in the statement of comprehensive income. Loans and receivables include accounts receivable, cash on hand and bank deposits in transit.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2018

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

Loans and receivables (continued)

(i) Accounts receivable

Accounts receivable are recognized initially at the invoice amount, which approximates the fair value.

A provision for impairment of trade receivables is established when there is objective evidence that the LDB will not be able to collect all amounts due according to the terms of the receivables. The carrying amount of accounts receivable is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive income. The amount of the provision is the difference between the asset's carrying value and the present value of the estimated future cash flows discounted at the original effective interest rate. Subsequent recoveries of amounts previously written off are credited to other income.

(ii) Cash

Cash includes cash on hand and bank deposits in transit and bank overdrafts. Bank overdrafts, if any, are shown as bank indebtedness in current liabilities on the statement of financial position.

Financial liabilities held at amortized cost

Financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method and include accounts payable, tenant improvement loans and bank indebtedness. Any resulting income or expense is recognized in the statement of comprehensive income.

(i) Accounts payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if the payment is due within one year or less and non-current liabilities if the payment is due more than one year from the statement of financial position date.

(ii) Bank indebtedness

Bank indebtedness, if any, is shown in current liabilities and included within cash and cash equivalents on the statement of cash flows as it forms an integral part of the LDB's cash management.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2018

3. Significant accounting policies (continued)

(c) Property and equipment

Property and equipment are measured at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the LDB and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(i) Construction in process

Construction in process is carried at cost less any impairment loss. Cost includes professional fees, materials, direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. When these assets are ready for their intended use, they are transferred into the appropriate category. At this point, depreciation commences on the same basis as the other property and equipment.

(ii) Assets held under finance leases

Refer to note 3(f).

(d) Intangible assets

Where computer software is not an integral part of a related item of property and equipment, the software is capitalized as an intangible asset.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring them into use. Direct costs associated with the production of identifiable and unique internally generated software products controlled by the LDB that will generate economic benefits exceeding costs beyond one year are capitalized. Direct costs include software development employment costs including those of contractors used. Where assets are under construction over a period of time, these costs are recorded in a construction in progress account until put into use.

Costs associated with maintaining computer software programs are recognized as an expense as incurred.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2018

3. Significant accounting policies (continued)

(d) Intangible assets (continued)

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Intangible assets acquired by the LDB that have finite lives are measured at cost less accumulated amortization and accumulated impairment losses.

(e) Depreciation and amortization of non-financial assets

No depreciation is provided on land or assets in the course of construction. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Asset	Rate
Buildings	2.5 - 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	10 - 25% per annum
Information systems	25% per annum
Computer software development costs	25% per annum

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each date of the statement of financial position.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive income.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2018

3. Significant accounting policies (continued)

(f) Leases

When assets are financed by leasing agreements that transfer substantially all of the risks and rewards of ownership to the LDB (finance leases), the assets are treated as if they had been purchased outright, and the corresponding liability to the leasing company is included as an obligation under finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables and current payables, as appropriate. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

All other leases are operating leases and the costs are recorded on a straight-line basis over the lease term. The value of any lease incentive received to take on an operating lease (for example, rent-free periods and tenant allowances) is recognized as deferred income and is recognized over the life of the lease.

(g) Inventories

The LDB's inventories are valued at the lower of cost and net realizable value. Inventories are determined on a weighted average cost basis. Cost of inventories comprises of cost of purchase to bring inventories to a LDB distribution centre and includes supplier invoiced value, freight, duties and taxes. Net realizable value represents the estimated selling price for inventories less the costs to sell.

(h) Impairment of assets

Assets that are subject to depreciation and amortization are reviewed at each statement of financial position date to determine whether there is any indication that assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent, if any, of the impairment loss. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (the "cash-generating unit"), which are based on the LDB's individual stores.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2018

3. Significant accounting policies (continued)

(h) Impairment of assets (continued)

Non-financial assets that suffered an impairment loss are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. This reversal would be recognized immediately in the statement of comprehensive income.

(i) Employee benefit plans

The LDB and its employees contribute to the Public Service Pension Plan in accordance with the Public Service Pension Plans Act. Defined contribution plan accounting is applied to the jointly trustee pension plan because sufficient information is not available to apply defined benefit accounting. Accordingly, contributions are expensed as they become payable. Employees are also entitled to specific retirement benefits as provided for under collective agreements and terms of employment. These benefits are accounted for as an expense and a liability in the period incurred.

(j) Provisions

Provisions are recognized if, as a result of a past event, the LDB has a legal or constructive obligation upon which a reliable estimate can be made, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are calculated on a discounted basis where the effect is material to the original undiscounted provision. The carrying amount of the provision increases in each period to reflect the passage of time and the unwinding of the discount.

(k) Revenue recognition

Reported revenue represents the fair value of consideration received or receivable in exchange for goods and services provided to third parties in the course of ordinary activities.

Revenue is recognized when the risks and rewards of ownership are substantially transferred.

Revenue is stated net of discounts, commission, estimated returns and excludes provincial sales tax, federal goods and services tax, container recycling fees and container deposits.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2018

3. Significant accounting policies (continued)

(l) Other income

Revenue that is ancillary to the sales of beverage alcohol is recognized as other income. Other income includes revenue from beverage container handling fees, border point collections and customs clearing administrative fees.

(m) Recent accounting developments

Standards and interpretations issued but not yet effective and not yet adopted by the LDB

The following new IFRS standards, amendments and interpretations to existing standards have been published by the IASB and are relevant to the LDB. They are not yet effective and have not been early adopted.

(i) *IFRS 9, 'Financial Instruments'*

IFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2014), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard also introduces additional changes relating to financial liabilities; amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment; and a new general hedge accounting standard which aligns hedge accounting more closely with risk management.

The standard is effective for accounting periods beginning on or after January 1, 2018 with early adoption permitted. Based on management's assessment, this standard is not expected to have a material impact.

(ii) *IFRS 15, 'Revenue from Contracts with Customers'*

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2018

3. Significant accounting policies (continued)

(m) Recent accounting developments (continued)

Standards and interpretations issued but not yet effective and not yet adopted by the LDB (continued)

(iii) *IFRS 15, 'Revenue from Contracts with Customers' (continued)*

The standard is effective for accounting periods beginning on or after January 1, 2018, with early adoption permitted. Based on management's assessment, this standard is not expected to have a material impact.

(iv) *IFRS 16 'Leases'*

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The standard is effective for accounting periods beginning on or after January 1, 2019. Earlier application is permitted, but only in conjunction with IFRS 15. The LDB has not yet assessed the impact of the standard.

4. Sales

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

	2018	2017
Retail customers	\$ 1,463,045	\$ 1,433,076
Licensee retail stores	1,097,773	1,027,230
Hospitality customers	594,362	559,172
Other customers	247,002	221,190
Agency stores	95,825	90,864
Total sales	\$ 3,498,007	\$ 3,331,532

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2018

5. Operating expenses

The LDB's operating expenses are comprised of:

	2018	2017
Administration costs	\$ 353,381	\$ 331,990
Marketing	5,269	5,150
Transportation	1,397	1,339
	<u>360,047</u>	<u>338,479</u>
Salaries, wages and benefits	203,776	194,938
Rents	52,547	46,494
Bank charges	30,334	29,747
Other administrative expenses	19,407	18,409
Depreciation and amortization	18,696	14,815
Professional services	10,292	10,995
Data processing	9,440	8,237
Repairs and maintenance	6,193	5,754
Marketing	5,269	5,150
Loss prevention	2,696	2,601
Transportation	1,397	1,339
	<u>\$ 360,047</u>	<u>\$ 338,479</u>

6. Accounts receivable

	2018	2017
Trade accounts receivable and other items	\$ 18,404	\$ 8,835
Provision for doubtful accounts	(54)	(51)
	<u>\$ 18,350</u>	<u>\$ 8,784</u>

Receivables past due but not impaired are \$0.3 million (2017 - \$0.4 million). During the year the LDB expensed \$nil (2017 - \$0.1 million) in bad debts expense.

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2018

7. Prepaid expenses

Prepaid expenses include insurance, software maintenance, and wine futures for cash paid pertaining to wine to be received in subsequent periods. The LDB purchases select products up to three years in advance to secure future delivery of these products as part of its ongoing business practices. These products are normally purchased in foreign currency and are translated to Canadian dollars at the spot exchange rate in effect at the transaction date. At March 31, 2018, the LDB has recorded \$8.7 million (2017 - \$5.0 million) of prepaid wine futures for delivery in fiscal years 2019 to 2020.

	2018	2017
Non-refundable wine futures	\$ 8,654	\$ 5,027
Other prepaid expenses	4,438	3,326
	13,092	8,353
Less long term portion	(1,524)	(759)
Current portion	\$ 11,568	\$ 7,594

8. Inventories

	2018	2017
Store inventory	\$ 71,999	\$ 62,083
Warehouse inventory	49,941	50,274
Total inventory	\$ 121,940	\$ 112,357

During the year, inventories that were recognized as cost of sales amounted to \$2.0 billion (2017 - \$1.9 billion).

BC LIQUOR DISTRIBUTION BRANCH

Notes to the Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2018

9. Intangible assets

	Intangible assets	Construction in process	Total
March 31, 2017			
Opening net book value	\$ 3,887	\$ 16,241	\$ 20,128
Additions	551	14,707	15,258
CIP capitalization	3,441	(3,441)	-
Disposals (cost)	-	(402)	(402)
Disposals (accumulated amortization)	51	-	51
Amortization charge	(2,338)	-	(2,338)
	<u>\$ 5,592</u>	<u>\$ 27,105</u>	<u>\$ 32,697</u>
Cost	\$ 28,638	\$ 27,105	\$ 55,743
Accumulated amortization	(23,046)	-	(23,046)
Net book value	<u>\$ 5,592</u>	<u>\$ 27,105</u>	<u>\$ 32,697</u>
March 31, 2018			
Opening net book value	\$ 5,592	\$ 27,105	\$ 32,697
Additions	120	13,575	13,695
CIP capitalization	36,407	(36,407)	-
Disposals (cost)	(14,068)	-	(14,068)
Disposals (accumulated amortization)	14,068	-	14,068
Amortization charge	(5,967)	-	(5,967)
	<u>\$ 36,152</u>	<u>\$ 4,273</u>	<u>\$ 40,425</u>
Cost	\$ 51,097	\$ 4,273	\$ 55,370
Accumulated amortization	(14,945)	-	(14,945)
Net book value	<u>\$ 36,152</u>	<u>\$ 4,273</u>	<u>\$ 40,425</u>

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements
(Tabular amounts in thousands of dollars)

For the year ended March 31, 2018

10. Property and equipment

	Land & land improvements	Buildings & building improvements	Leasehold improvements	Furniture fixtures vehicles & equipment	Information systems	Construction in process	Total
March 31, 2017							
Opening net book value	642	683	25,998	9,617	8,032	3,820	48,792
Additions	-	158	4	1,908	1,704	7,704	11,478
CIP capitalization	-	9	7,171	455	-	(7,635)	-
Disposals (cost)	-	-	-	(331)	(294)	-	(625)
Disposals (accumulated depreciation)	-	-	-	327	293	-	620
Depreciation charge	(2)	(54)	(6,528)	(3,302)	(2,591)	-	(12,477)
	640	796	26,645	8,674	7,144	3,889	47,788
March 31, 2018							
Opening net book value	640	796	26,645	8,674	7,144	3,889	47,788
Assets reclassified	-	(10)	(25)	35	-	-	-
Additions	-	104	69	1,835	1,457	30,560	34,025
CIP capitalization	-	-	9,174	950	-	(10,124)	-
Disposals (cost)	-	-	(2,238)	(2,415)	(44,559)	-	(49,212)
Disposals (accumulated depreciation)	-	-	1,738	2,382	44,559	-	48,679
Depreciation charge	(2)	(62)	(6,535)	(3,306)	(2,824)	-	(12,729)
	638	828	28,828	8,155	5,777	24,325	68,551
March 31, 2018							
Cost	647	6,143	91,537	45,737	46,080	24,325	214,469
Accumulated depreciation	(9)	(5,315)	(62,709)	(37,582)	(40,303)	-	(145,918)
Net book value	638	828	28,828	8,155	5,777	24,325	68,551

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2018

11. Accounts payable and accrued liabilities

	2018	2017
Trade payables	\$ 129,488	\$ 96,862
Accrued liabilities	70,128	73,862
Other payables	3,543	3,344
Current portion of deferred lease liabilities (note 15)	498	498
	\$ 203,657	\$ 174,566

12. Due to Province of British Columbia

The LDB uses the Province's financial and banking systems to process and record its transactions. The amount due to the Province represents the accumulated net financial transactions with the Province. During the year, the total receipts from the Province were \$2.44 billion (2017 - \$2.41 billion) and the total payments to the Province were \$3.53 billion (2017 - \$3.48 billion).

13. Other long-term liabilities

The LDB's other long-term liabilities are comprised of:

	2018	2017
Retirement benefit obligation (note 14(b))	\$ 17,335	\$ 16,373
WorkSafe BC claims accruals (note 14(c))	11,000	10,700
Long-term portion of deferred lease liabilities (note 15)	3,088	1,994
Other	1,697	1,507
	\$ 33,120	\$ 30,574

14. Employees' benefit plans and other employment liabilities

(a) Public Service Pension Plan

The LDB and its employees contribute to the Public Service Pension Plan, a jointly trusteed pension plan. The Public Service Pension Board of Trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of the assets and administration of benefits. The plan is a multi-employer contributory pension plan. Basic pension benefits are based on a formula. The Plan has about 59,000 active plan members and approximately 46,000 retired plan members.

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Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2018

14. Employees' benefit plans and other employment liabilities (continued)

(a) Public Service Pension Plan (continued)

The latest actuarial valuation as at March 31, 2017, indicated a funding surplus of \$1.9 billion for basic pension benefits. The next valuation will be March 31, 2020, with results available in early 2021.

Employers participating in the plan record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting).

This is because the plan records accrued liabilities and accrued assets for the plan in aggregate, with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plan. The total amount paid into this pension plan by the LDB for the year ended March 31, 2018 was \$12.8 million (2017 - \$12.2 million) for employer contributions which was recorded in administration expenses. At this time, LDB does not expect significant fluctuations in the future contributions to the plan.

(b) Retirement benefits

Employees are entitled to specific non-pension retirement benefits as provided for under collective agreements and terms of employment. The future liability for this obligation amounts to \$17.3 million (2017 - \$16.4 million), which represents future employees' retirement benefits outside of the Plan and is included in other long-term liabilities. The amount expensed in the current year was \$0.9 million (2017 - \$0.5 million).

(c) WorkSafe BC outstanding claims

The LDB self-funds worker's compensation claims. The LDB recognizes a liability and an expense for claims that are in progress at the year-end. This liability of \$11.0 million (2017 - \$10.7 million) is valued by independent actuaries.

15. Deferred lease liabilities

Deferred lease liabilities are as follows:

	2018	2017
Deferred rent	\$ 3,586	\$ 2,492
Less current portion included in accounts payable and accrued liabilities	(498)	(498)
Long term portion	\$ 3,088	\$ 1,994

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

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For the year ended March 31, 2018

16. Contractual commitments

(a) Leases

Future commitments for operating leases for LDB premises are as follows:

	2018	2017
Total future minimum rental payments under non-cancellable operating leases expiring:		
Not later than one year	\$ 37,766	\$ 36,483
Later than one year and not later than five years	92,272	90,767
Later than five years and not later than 25 years	49,254	55,642
	<u>\$ 179,292</u>	<u>\$ 182,892</u>

The LDB leases various stores, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The minimum lease expenditures charged to the statement of comprehensive income during the year is \$39.7 million (2017 - \$35.2 million).

(b) BC Liquor Store fees

The LDB pays the Liquor Control and Licensing Branch an annual license fee based on the annual sales in each BC Liquor Store. The LDB paid \$0.4 million (2017 - \$0.4 million) for license fees during the year.

(c) Payroll processing

The LDB has an agreement with the BC Public Service Agency for payroll processing. The LDB paid \$1.0 million (2017 - \$0.9 million) for processing services. The agreement expires in November 2019.

Other contractual commitments have been disclosed elsewhere in the notes to the financial statements.

17. Contingent items

The LDB is the sole importer of beverage alcohol in the Province. The LDB, as the importer of record, has the future liability for customs duty on import beer of \$0.9 million (2017 - \$0.9 million) based upon the value of the agents' inventories at March 31, 2018.

The LDB 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 LDB.

BC LIQUOR DISTRIBUTION BRANCH

Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2018

18. Capital management

The LDB does not retain any equity. Net income is returned to the Province. The LDB has no externally imposed capital requirements.

19. Related party transactions

(a) Province of British Columbia

All transactions with the Province of BC and its ministries, agencies, and Crown corporations occurred in the normal course of business at arm's length, which is representative of fair value, unless otherwise disclosed in these notes.

(b) Key management compensation

The LDB's executive management committee is defined as key management. At March 31, 2018, there were 8 (2017 - 7) members on the executive committee.

	2018	2017
Salaries and short term benefits	\$ 1,071	\$ 1,066
Post-employment benefits	78	79
Fees for services	-	207
	<u>\$ 1,149</u>	<u>\$ 1,352</u>

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

20. Fair value of financial instruments:

The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. In certain circumstances, however, the fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market-based inputs. The fair values of the LDB's assets and liabilities were determined as follows:

(a) Current assets and liabilities:

The carrying amounts for cash, accounts receivable, accounts payable and accrued liabilities and due to the Province of British Columbia approximate their fair values due to the short-term nature of these items.

(b) Non-current financial liabilities:

The value of the Public Service Pension Plan and Worksafe BC liability approximate their fair values based on independent actuarial valuation. Retirement benefits are calculated based on pensionable earnings and rates provided by the Public Service Agency which approximates the fair value of the liability (Note 14).

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Notes to Financial Statements

(Tabular amounts in thousands of dollars)

For the year ended March 31, 2018

21. Financial risk factors

The LDB is exposed to the following risks related to its financial assets and liabilities:

- Credit risk
- Liquidity risk
- Market risk

It is management's opinion that the LDB is not exposed to significant credit, liquidity or market risk arising from these instruments.

(a) Credit risk

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

Credit risk is the risk of financial loss to the LDB arising from its cash held at financial institutions and the failure of a tenant or other party to meet its contractual obligations related to lease agreements, including future lease payments. See accounts receivable note 3(b) and 6 for further disclosure on credit risk.

As at March 31, 2018, the cash balances are held with a major Canadian bank and therefore not exposed to significant credit risk.

(b) Liquidity risk

Liquidity risk is the risk that the LDB will be unable to meet its financial obligations as they become due.

The LDB manages liquidity risk primarily by monitoring cash flows and by maintaining the ability to borrow funds through the Province.

(c) Market risk

Market risk is the risk that changes in the market prices, such as foreign exchange rates and interest rates, will affect the LDB's income or the value of its financial instruments.

While the majority of the LDB's transactions are in Canadian dollars, the LDB also transacts in Euros and US dollars. These transactions are in the normal course of business. The LDB's exposure to foreign currency risk could impact the accounts payable of the LDB. A 10% movement in the exchange rate between the Canadian dollar and the other currencies listed above would not have a material impact on the LDB.

The LDB currently does not hold any debt or equity securities and as such is not exposed to interest rate risk. As the LDB has no significant interest-bearing assets and liabilities, the LDB's income and operating cash flows are substantially independent of changes in market interest rates.

