



Financial Statements

Nova Scotia Liquor Corporation

March 31, 2014

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## Independent auditor's report

To the members of the Board of the  
**Nova Scotia Liquor Corporation**

We have audited the accompanying financial statements of the Nova Scotia Liquor Corporation, which comprise the balance sheet as at March 31, 2014 and the statements of earnings, comprehensive earnings, changes in equity and 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

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 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 Corporation'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.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Nova Scotia Liquor Corporation as at March 31, 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Grant Thornton LLP*

Halifax, Canada  
June 20, 2014

Chartered Accountants

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# Nova Scotia Liquor Corporation

## Statements of earnings

Year ended March 31 (in thousands)	2014	2013
Sales	\$ 593,166	\$ 592,943
Cost of sales	<u>268,001</u>	<u>269,054</u>
Gross margin	325,165	323,889
Operating expenses (note 12)	101,446	101,283
Other income	<u>(5,681)</u>	<u>(4,981)</u>
Earnings from operations	<u>229,400</u>	<u>227,587</u>
Interest expense – lease liability	2	2
Post employment benefit interest cost (note 9)	<u>1,152</u>	<u>1,199</u>
Total finance costs	<u>1,154</u>	<u>1,201</u>
Earnings for the year	<u>\$ 228,246</u>	<u>\$ 226,386</u>

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See accompanying notes to the financial statements.

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## **Nova Scotia Liquor Corporation**

### **Statements of comprehensive earnings**

Year ended March 31 (in thousands)	<b>2014</b>	2013
Earnings for the year	<b>\$ 228,246</b>	\$ 226,386
Other comprehensive earnings		
Items that will not be reclassified subsequently to earnings:		
Actuarial gains (losses) on defined benefit plans (note 9)	<u>2,296</u>	<u>(2,125)</u>
Comprehensive earnings for the year	<b><u>\$ 230,542</u></b>	<b><u>\$ 224,261</u></b>

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See accompanying notes to the financial statements.

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**Nova Scotia Liquor Corporation****Balance sheets**

March 31 (in thousands)

**2014****2013**

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**Assets**

## Current

Cash	\$	13,612	\$	15,887
Receivables		1,843		1,376
Inventories		47,196		44,764
Prepays		1,314		944
		<u>63,965</u>		<u>62,971</u>

Intangibles (note 6)

4,276 4,861

Property and equipment (note 7)

45,369 44,028\$ 113,610 \$ 111,860

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**Liabilities**

## Current

Payables and accruals	\$	40,867	\$	42,314
Current portion of obligations under finance lease		19		20
Current portion of employee future benefit obligations (note 9)		1,490		1,319
		<u>42,376</u>		<u>43,653</u>

Obligations under finance lease

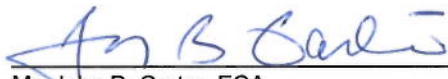
1 21

Employee future benefit obligations (note 9)

26,860 28,35569,237 72,029**Equity (page 5)**44,373 39,831\$ 113,610 \$ 111,860

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On behalf of the Board

Ms. Sherry Porter  
Chair, Board of DirectorsMr. John B. Carter, FCA  
Audit Committee Chair

See accompanying notes to the financial statements.

# Nova Scotia Liquor Corporation

## Statements of changes in equity

(in thousands)

	Other components of equity	Retained earnings	Total
Balance at March 31, 2013	\$ (2,269)	\$ 42,100	\$ 39,831
Remittances to Minister of Finance	-	(226,000)	(226,000)
Earnings for the year	-	228,246	228,246
Other comprehensive income	2,296	-	2,296
Comprehensive earnings for the year	2,296	228,246	230,542
Balance at March 31, 2014	\$ 27	\$ 44,346	\$ 44,373
Balance at April 1, 2012	\$ (144)	\$ 40,214	\$ 40,070
Remittances to Minister of Finance	-	(224,500)	(224,500)
Earnings for the year	-	226,386	226,386
Other comprehensive loss	(2,125)	-	(2,125)
Comprehensive earnings for the year	(2,125)	226,386	224,261
Balance at March 31, 2013	\$ (2,269)	\$ 42,100	\$ 39,831

See accompanying notes to the financial statements.

# Nova Scotia Liquor Corporation

## Statements of cash flows

Year ended March 31 (in thousands)	2014	2013
<b>Operating</b>		
Earnings for the year	\$ 228,246	\$ 226,386
Depreciation and amortization	9,648	10,051
Gain on disposal of property and equipment	(1,183)	(57)
Post employment service costs	1,490	1,319
Post employment benefit interest cost	1,152	1,199
Actuarial gain on post employment benefit	(369)	-
Defined benefit plans benefits paid	<u>(1,302)</u>	<u>(1,454)</u>
	237,682	237,444
Change in non-cash operating working capital (note 10)	<u>(4,716)</u>	<u>6,382</u>
	<u>232,966</u>	<u>243,826</u>
<b>Financing</b>		
Principal payments on obligation under finance lease	(20)	(19)
Remittances to Minister of Finance	<u>(226,000)</u>	<u>(224,500)</u>
	<u>(226,020)</u>	<u>(224,519)</u>
<b>Investing</b>		
Purchase of intangibles	(1,423)	(993)
Purchase of property and equipment	(9,498)	(11,249)
Proceeds on sale of property and equipment	<u>1,700</u>	<u>160</u>
	<u>(9,221)</u>	<u>(12,082)</u>
Net change in cash	(2,275)	7,225
Cash, beginning of year	<u>15,887</u>	<u>8,662</u>
Cash, end of year	<u>\$ 13,612</u>	<u>\$ 15,887</u>

See accompanying notes to the financial statements.



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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2014 (in thousands)

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### 1. Nature of operations

The Nova Scotia Liquor Corporation (the "Corporation") administers the Liquor Control Act, Chapter 260 of the Revised Statutes of Nova Scotia, 1989 and is a government business enterprise as defined by Public Sector Accounting Board recommendations. The immediate parent and ultimate controlling party of the Corporation is the Province of Nova Scotia. The Corporation is exempt from income tax under Section 149 of the Income Tax Act. The Corporation's principal place of business is 93 Chain Lake Drive, Halifax, Nova Scotia.

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### 2. Basis of preparation

#### Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements for the year ended March 31, 2014 (including comparatives) were approved and authorized for issue by the Board of Directors on June 20, 2014.

#### Basis of measurement

The Corporation's financial statements are prepared on the historical cost basis, except for employee future benefits which are measured as described in note 9. The financial statements are presented in Canadian dollars and all values are rounded to the nearest thousand.

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### 3. Summary of significant accounting policies

#### Presentation of financial statements

These financial statements are presented in accordance with IAS 1 Presentation of Financial Statements. IAS 1 requires the presentation of the previous year's comparative information in each of the primary financial statements.

Certain comparative amounts in the statements of earnings, balance sheets and statements of cash flows have been reclassified to conform with the current year's presentation.

#### Use of estimates and judgments

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

#### Significant management judgment

The following are significant management judgments in applying the accounting policies of the Corporation that have the most significant effect on the financial statements.

#### *Impairment*

The carrying values of property and equipment, intangible assets, and cash generating units are reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in earnings.

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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2014 (in thousands)

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### 3. Summary of significant accounting policies (continued)

#### *Capitalization of internally developed software*

Distinguishing the research and development phases of a new customized software project and determining whether the recognition requirements for the capitalization of development costs are met requires judgment. After capitalization, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalized costs may be impaired.

#### Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

#### *Useful lives of property and equipment and intangibles*

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected pattern of consumption of the future economic benefits embodied in the assets. Uncertainties in these estimates relate to technical obsolescence that may change the expected consumption pattern of certain software and IT equipment.

#### *Inventories*

Management estimates the net realizable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by market-driven changes that may reduce future selling prices.

#### *Defined benefit obligations (DBO)*

Management's estimate of the DBO is based on a number of critical underlying assumptions such as standard rates of inflation, medical cost trends, mortality, discount rate and anticipation of future salary increases. Estimation uncertainties exist particularly with these assumptions. Variation in these assumptions may significantly impact the DBO amounts and the annual defined benefit expenses.

#### **Revenue**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised at the point of sale when goods are sold to the customer, exclusive of sales tax.

#### **Customer loyalty programs**

An AIR MILES® loyalty program is used by the Corporation. AIR MILES® are earned by certain customers based on purchases. The Corporation pays a per point fee under the terms of the agreement with AIR MILES®. Income from the program is recognized in the period in which it is earned with the associated cost of points offsetting the revenue. The net cost is recorded in other income.

#### **Vendor rebates**

The Corporation records cash consideration received from vendors as a reduction to the cost of related inventory or, if the related inventory has been sold, to the cost of producing revenue. Certain exceptions apply where the cash consideration received is either a reimbursement of incremental costs incurred by the Corporation or a payment for assets or services delivered to the vendor, in which case the cost is reflected as a reduction in operating expenses.

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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2014 (in thousands)

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### 3. Summary of significant accounting policies (continued)

#### Cash

Cash comprises cash on hand and demand deposits.

#### Inventories

Inventories are valued at the lower of cost and net realizable value using the weighted average moving cost method. Cost includes product costs, standard freight costs and customs with excise included when product is released for sale. The amount of inventory expensed during the year is shown as cost of goods sold on the statement of earnings.

#### Intangible assets

Intangible assets include the development and implementation of the enterprise resource planning system which are recorded at cost and amortized on a straight-line basis over their estimated useful lives, as these assets are considered to have finite useful lives. Useful lives are reviewed at each reporting date. The Corporation assesses the carrying value of the intangible assets for impairment when events or circumstances warrant such a review.

Intangible assets are amortized on a straight line basis at the following rates per annum:

Enterprise resource planning	5 years
Other intangible assets	3 years

#### Property and equipment

Property and equipment are carried at cost, less depreciation and any recognized impairment loss. Depreciation commences when the assets are ready for their intended use. Construction in progress is stated at cost. Cost includes expenditures directly attributable to the acquisition or construction of the item.

Depreciation is provided to write off the cost of property and equipment other than land over their estimated useful lives and after taking into account their estimated residual value using the straight-line method at the following rates:

Furniture, fixtures, other equipment, capital and leasehold improvements	10 years
Computers, software and hardware	3 – 5 years
Buildings	10 – 40 years

Leasehold improvements are depreciated over 10 years which is considered the life of the asset rather than the term of the lease to reflect periodic store upgrades.

Any gains or losses arising on disposals of property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of earnings in the year in which the item is disposed.

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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2014 (in thousands)

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### 3. Summary of significant accounting policies (continued)

#### *Impairment of non-financial assets*

Each store is considered a cash generating unit. At the end of each reporting period, the Corporation reviews the carrying amounts of its tangible assets to determine whether there is an indication of an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the assets belong. The recoverable amount of any asset (or a cash-generating unit) is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of the asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in earnings. When an impairment loss is subsequently reversed, the carrying amount of the assets (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

#### **Leased assets**

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

#### Corporation as lessee

Assets held under finance leases are initially recognized at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included on the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Corporation's accounting policy on borrowing costs.

Finance leased assets are depreciated on a straight-line basis over the estimated useful life of the asset. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

#### Lease incentives

Lease incentives received to enter into operating leases are recognized as liabilities. The aggregate benefits of incentives are recognized as a reduction of rental expense on a straight-line basis over the term of the lease.

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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2014 (in thousands)

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### 3. Summary of significant accounting policies (continued)

#### Employee benefits

A liability is recognized for wages and benefits accruing to employees when it is probable that settlement will be required and is capable of being measured reliably. Liabilities recognized in respect of employee benefits expected to be settled within twelve months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognized in respect of employee benefits which are not expected to be settled within twelve months are measured as the present value of the estimated future cash outflows to be made by the Corporation in respect of services provided by employees up to reporting date.

#### Defined benefit plans and other long term employee benefits

For defined benefit plans, including the Public Service Award Program, the post retirement health care plan and the sick leave plan, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each reporting date. Actuarial gains and losses for the Public Service Award Program and the post retirement health care plan are recognized immediately within other comprehensive earnings. The actuarial gains and losses related to the sick leave plan are recognized in profit and loss. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested. The defined benefit obligations recognized on the balance sheet represent the present value of the defined benefit obligations.

#### Financial instruments

All financial instruments are classified into one of five categories: fair value through profit and loss, held to maturity, loans and receivables, available for sale financial assets, or other financial liabilities. All financial instruments are initially measured in the statement of financial position at fair value plus transaction costs.

Subsequent measurement and changes in fair value will depend on their initial classification, as follows:

- Fair value through profit and loss financial instruments are measured at fair value and changes in fair value are recognized in net earnings;
- Available for sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income until the financial asset is derecognized or impaired at which time the amounts would be recorded in profit or loss; and
- Loans and receivables, held to maturity investments, and other financial liabilities are measured at amortized cost using the effective interest method.

The Corporation has classified its financial instruments as follows:

<u>Asset/liability</u>	<u>Classification</u>
Cash	Loans and receivables
Receivables	Loans and receivables
Payables and accruals	Other financial liabilities

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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2014 (in thousands)

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### 3. Summary of significant accounting policies (continued)

#### Financial instruments risk

Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant credit risk, liquidity risk, and market risk arising from its financial instruments.

#### **Foreign currency translation**

In preparing the financial statements, transactions in currencies other than the Canadian dollar are recorded at the rates of exchange prevailing on the date of the transaction. At each balance sheet date, monetary items denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Any gain or loss is recognized in other income.

#### **Provisions**

Provisions are recognized when the Corporation has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. A provision is a liability of uncertain timing or amount.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in provision due to the passage of time is recognized as an interest expense. There are no provisions as at March 31, 2014 and 2013.

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### 4. Future accounting pronouncements that are not yet effective and have not been adopted early by the Corporation

At the date of authorization of these financial statements, certain new IFRS standards, amendments and interpretations to existing standards have been published by the IASB, but are not yet effective and have not been adopted early by the Corporation.

Management anticipates that all of the relevant pronouncements will be adopted in the Corporation's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Corporation's financial statements is provided below.

#### **IFRS 9 Financial Instruments (IFRS 9)**

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities, and hedge accounting have been issued. The IASB at its February 2014 meeting has tentatively set January 1, 2018 as the effective date for the mandatory application of these chapters.

A chapter dealing with impairment methodology is still being developed. Management does not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2014 (in thousands)

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#### 4. Future accounting pronouncements that are not yet effective and have not been adopted early by the Corporation (continued)

##### **Amendments to IAS 19 Employee Benefits (IAS 19 Amendments)**

The IAS 19 Amendment includes clarification of the requirements related to how contributions from employees or third parties that are linked to service should be attributed to periods of service:

- If the amount of the contributions is independent of the number of years of service, contributions may be recognized as a reduction in the service cost in the period in which the related service is rendered (note: this is an allowed but not required method).
- If the amount of the contributions depends on the number of years of service, those contributions must be attributed to periods of service using the same attribution method as used for the gross benefit in accordance with paragraph 70 of IAS 19.

The amended version of IAS 19 is effective for annual periods beginning on or after July 1, 2014. Management is still assessing the impact of this revised standard on the financial statements.

##### **Amendments to IAS 36 Impairment of Assets (IAS 36 Amendments)**

The effect of IAS 36 Amendment, *Recoverable Amount Disclosures for Non-Financial Assets*, is to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The amended version of IAS 36 is effective for annual periods beginning on or after January 1, 2014. Management is still assessing the impact of this revised standard on the financial statements.

##### **Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)**

The amendment to IAS 32 *Financial Instruments: Presentation* clarifies certain aspects because of diversity in application of the requirements on offsetting. The amendment focuses on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- the application of simultaneous realization and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements

The amended version of IAS 32 is effective for annual periods beginning on or after January 1, 2014. Management is still assessing the impact of this revised standard on the financial statements.

##### **Levies (IFRIC 21)**

This IFRIC is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. It establishes criteria for the recognition of a liability to pay levies imposed by governments other than income taxes. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. Management is still assessing the impact of this standard on the financial statements.

# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2014 (in thousands)

### 5. Accounting standards and policies adopted during fiscal 2014

#### *Fair value measurement*

The IASB issued IFRS 13, "Fair Value Measurement", which defines fair value, provides guidance in a single IFRS framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. This standard became effective during fiscal 2014. The adoption of this standard had no measurement impact on the Corporation's financial results.

#### *Employee benefits*

In June 2011, the IASB issued amendments to IAS 19, "*Employee Benefits*", which eliminate the option to defer the recognition of actuarial gains and losses, streamline the presentation of changes in assets and liabilities arising from defined benefit plans to be presented in other comprehensive income and enhance disclosure requirements around the characteristics of the defined benefit plans and risks associated with participation in those plans. Upon adoption of IFRS, the Corporation adopted the policy of immediately recognizing actuarial gains and losses through other comprehensive income so the standard did not have a significant impact on the Corporation's financial results.

#### *Presentation of financial statements*

The IASB issued amendments to IAS 1, "*Presentation of Financial Statements*" enhancing the presentation of Other Comprehensive Income ("OCI") in the financial statements, primarily by requiring the components of OCI to be presented separately for items that may be reclassified to the statement of earnings from those that remain in equity. This standard became effective during fiscal 2014 and did not have a significant impact on the Corporation's financial statements.

### 6. Intangibles

	Enterprise Resource Planning (ERP)	Other Intangibles	Assets under Development	Total
Cost				
At March 31, 2013	\$ 24,858	\$ 2,738	\$ 670	\$ 28,266
Additions	218	462	1,196	1,876
Transfers	-	-	(453)	(453)
Disposals	(27)	-	-	(27)
At March 31, 2014	<u>25,049</u>	<u>3,200</u>	<u>1,413</u>	<u>29,662</u>
Amortization				
At March 31, 2013	(22,054)	(1,351)		(23,405)
Amortization expense	(1,161)	(847)	-	(2,008)
Disposals	27	-	-	27
At March 31, 2014	<u>(23,188)</u>	<u>(2,198)</u>	<u>-</u>	<u>(25,386)</u>
Carrying amounts				
At March 31, 2013	<u>\$ 2,804</u>	<u>\$ 1,387</u>	<u>\$ 670</u>	<u>\$ 4,861</u>
At March 31, 2014	<u>\$ 1,861</u>	<u>\$ 1,002</u>	<u>\$ 1,413</u>	<u>\$ 4,276</u>

Amortization expense for intangible assets is reported as a selling, general and administrative expense in the statements of earnings.



# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2014 (in thousands)

### 7. Property and equipment

	<u>Furniture &amp; Fixtures</u>	<u>Other Equipment</u>	<u>Small Computers</u>	<u>Software &amp; Hardware</u>	<u>Land</u>	<u>Buildings</u>	<u>Capital &amp; Leasehold Improvements</u>	<u>Assets under Construction (AUC or WIP)</u>	<u>Total</u>
<b>Cost</b>									
At March 31, 2013	\$ 16,318	\$ 14,651	\$ 11,312	\$ 2,276	\$ 899	\$ 35,448	\$ 29,899	\$ 6,758	\$ 117,561
Additions	<b>1,013</b>	<b>765</b>	<b>814</b>	<b>(25)</b>	-	<b>305</b>	<b>7,641</b>	<b>3,713</b>	<b>14,226</b>
Transfers	-	-	-	-	-	-	-	<b>(4,728)</b>	<b>(4,728)</b>
Disposals	-	-	-	-	<b>(198)</b>	<b>(1,124)</b>	-	-	<b>(1,322)</b>
At March 31, 2014	<u><b>17,331</b></u>	<u><b>15,416</b></u>	<u><b>12,126</b></u>	<u><b>2,251</b></u>	<u><b>701</b></u>	<u><b>34,629</b></u>	<u><b>37,540</b></u>	<u><b>5,743</b></u>	<u><b>125,737</b></u>
<b>Depreciation</b>									
At March 31, 2013	(9,560)	(9,239)	(8,612)	(1,987)	-	(27,472)	(16,663)	-	(73,533)
Depreciation expense	<b>(1,377)</b>	<b>(962)</b>	<b>(1,123)</b>	<b>(142)</b>	-	<b>(1,027)</b>	<b>(3,009)</b>	-	<b>(7,640)</b>
Disposals	-	-	-	-	-	<b>805</b>	-	-	<b>805</b>
At March 31, 2014	<u><b>(10,937)</b></u>	<u><b>(10,201)</b></u>	<u><b>(9,735)</b></u>	<u><b>(2,129)</b></u>	<u>-</u>	<u><b>(27,694)</b></u>	<u><b>(19,672)</b></u>	<u>-</u>	<u><b>(80,368)</b></u>
<b>Carrying amounts</b>									
At March 31, 2013	<u>\$ 6,758</u>	<u>\$ 5,412</u>	<u>\$ 2,700</u>	<u>\$ 289</u>	<u>\$ 899</u>	<u>\$ 7,976</u>	<u>\$ 13,236</u>	<u>\$ 6,758</u>	<u>\$ 44,028</u>
At March 31, 2014	<u><b>\$ 6,394</b></u>	<u><b>\$ 5,215</b></u>	<u><b>\$ 2,391</b></u>	<u><b>\$ 122</b></u>	<u><b>\$ 701</b></u>	<u><b>\$ 6,935</b></u>	<u><b>\$ 17,868</b></u>	<u><b>\$ 5,743</b></u>	<u><b>\$ 45,369</b></u>

Depreciation expense of property and equipment is reported as an operating expense in the statements of earnings.

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# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2014 (in thousands)

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### 8. Lease commitments

#### Operating leases as a lessee

The Corporation's operating leases relate to retail stores with lease terms between 1 to 20 years. Generally the leases have renewal options, primarily at the Corporation's option. The Corporation does not have an option to purchase the leased assets at the expiry of the lease periods. The Corporation's future minimum operating lease payments are as follows:

	Minimum lease payments due			Total
	Within 1 year	1 to 5 years	After 5 years	
\$	5,936	\$ 14,301	\$ 6,520	\$ 26,757

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### 9. Employee remuneration

#### Retirement benefit plan

The Corporation contributes to the Nova Scotia Public Service Superannuation Plan, which is a defined benefit plan. The Corporation accounts for these contributions as a defined contribution plan. The actuarial and investment risk is administered by Public Service Superannuation Plan Trustee Inc. The Corporation matches the contributions of employees' contributions calculated as: 8.4% on eligible earnings up to the year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan (CPP) and 10.9% on eligible earnings that is in excess of YMPE.

The total expense recognized in the statement of earnings is \$3,315 (2013 - \$3,130) and represents contributions paid or payable to these plans by the Corporation at rates specified in the plans.

#### Defined benefit plans and other long term employee benefits

The Public Service Award plan is a defined benefit plan covering substantially all of the Corporation's permanent unionized employees, as well as all full time non-union employees hired before August 1, 2005. The benefit is based on the number of years of service and the employee's compensation during the final year of employment. This program is funded in the year of retirement of eligible employees.

The Corporation pays 65% of the cost of health care plans for substantially all retirees or surviving spouses of retirees. This defined benefit plan is funded each year by the payment of the required premiums.

The Corporation also provides an accumulating non-vesting sick leave entitlement program. This program allows for the accumulation of unused sick time entitlements to cover short-term absences for health-related issues in lieu of a short-term disability plan. This program is funded each year as employees utilize their sick time entitlement.

# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2014 (in thousands)

### 9. Employee remuneration (continued)

#### Defined benefit plans and other long term employee benefits (continued)

Mercer Limited carried out the most recent actuarial valuation utilizing plan membership data up to December 31, 2012 (for the Retiree Health and Service Awards benefits) and December 31, 2013 (for the Sick Leave benefits). The present value of the benefit obligations were then calculated by extrapolating these valuations out to the end of the current fiscal year, March 31, 2014. The next actuarial valuations will be performed as of December 31, 2015.

The present value of the defined benefit obligations, and the related current service costs and past service costs, were measured using the Projected Unit Credit Method.

The principle assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at					
	March 31, 2014			March 31, 2013		
	<u>Retiree health</u>	<u>Service award</u>	<u>Sick leave</u>	<u>Retiree health</u>	<u>Service award</u>	<u>Sick leave</u>
Discount rate(s)	4.6%	3.9%	3.7%	4.3%	3.6%	3.4%
Expected rate(s) of salary increase	n/a	2.5%	2.5%	n/a	2.5%	2.5%
Initial weighted average health care trend rate	5.73%	n/a	n/a	5.85%	n/a	n/a
Ultimate weighted average health care trend rate	4.38%	n/a	n/a	4.38%	n/a	n/a

Amounts recognized in the statements of earnings and comprehensive earnings in respect of these benefit plans are as follows:

	Valuation at							
	March 31, 2014				March 31, 2013			
	<u>Retiree health</u>	<u>Service award</u>	<u>Sick leave</u>	<u>Total</u>	<u>Retiree health</u>	<u>Service award</u>	<u>Sick leave</u>	<u>Total</u>
Current service cost	\$ 516	\$ 479	\$ 495	\$ 1,490	\$ 417	\$ 431	\$ 471	\$ 1,319
Interest on obligation	748	218	186	1,152	763	246	190	1,199
Actuarial (gains) losses	<u>(2,856)</u>	<u>560</u>	<u>(369)</u>	<u>(2,665)</u>	<u>1,911</u>	<u>214</u>	<u>-</u>	<u>2,125</u>
	<u>\$ (1,592)</u>	<u>\$ 1,257</u>	<u>\$ 312</u>	<u>\$ (23)</u>	<u>\$ 3,091</u>	<u>\$ 891</u>	<u>\$ 661</u>	<u>\$ 4,643</u>

The amounts included on the balance sheets arising from the Corporation's obligation in respect of these benefit plans are as follows:

	Valuation at	
	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Present value of unfunded defined benefit obligation		
Current portion	\$ 1,490	\$ 1,319
Non-current portion	<u>26,860</u>	<u>28,355</u>
Total	<u>\$ 28,350</u>	<u>\$ 29,674</u>

# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2014 (in thousands)

### 9. Employee remuneration (continued)

Movements in the present value of the benefit obligations in the current period were as follows:

	<u>2014</u>	<u>2013</u>
Benefit obligations, beginning of year	\$ 29,674	\$ 26,485
Current service cost	1,490	1,319
Interest cost	1,152	1,199
Actuarial (gains) losses	(2,665)	2,125
Benefits paid	(1,301)	(1,454)
Benefit obligations, end of year	<u>\$ 28,350</u>	<u>\$ 29,674</u>

The effect of the change in the assumed health care cost trend rates:

	<u>2014</u>	<u>2013</u>
Effect on aggregate of current service cost and interest cost		
One percentage point increase	\$ 311	\$ 242
One percentage point decrease	(235)	(189)
Effect on accrued benefit obligation		
One percentage point increase	3,015	3,462
One percentage point decrease	(2,358)	(2,714)

### 10. Change in non-cash operating working capital

	<u>2014</u>	<u>2013</u>
Receivables	\$ (467)	\$ 1,258
Inventories	(2,432)	(4,146)
Prepays	(370)	(102)
Payables and accruals	(1,447)	9,372
	<u>\$ (4,716)</u>	<u>\$ 6,382</u>

# Nova Scotia Liquor Corporation

## Notes to the financial statements

March 31, 2014 (in thousands)

### 11. Related party transactions

The immediate parent and ultimate controlling party of the Corporation is the Province of Nova Scotia. Remittances to the Province of Nova Scotia are disclosed in the statements of changes in equity. Other transactions with the Province of Nova Scotia are deemed to be collectively insignificant to these financial statements.

#### Compensation of key management personnel

Members of the Board of Directors and Executive Team are deemed to be key management personnel. It is the Board of Directors and Executive Team who have the responsibility for planning, directing and controlling the activities of the Corporation.

The following is compensation expense for key management personnel:

	<u>2014</u>	<u>2013</u>
Short term benefits	\$ 1,602	\$ 1,537
Post-employment benefits	126	126
Other long term benefits	18	20
Total compensation	<u>\$ 1,746</u>	<u>\$ 1,683</u>

### 12. Operating expenses

	<u>2014</u>	<u>2013</u>
Salaries and employee benefits	\$ 55,903	\$ 54,799
Depreciation and amortization	9,648	10,051
Occupancy	8,000	7,650
Debit/credit/gift card fees	4,573	4,430
Service contracts & licenses	4,519	4,541
Utilities	2,953	2,756
Freight	2,503	2,616
Marketing and merchandising	2,133	2,198
Maintenance and repairs	1,901	1,263
Supplies and sundry	1,626	1,742
Post employment current service costs (note 9)	1,490	1,319
Legal/audit/consulting	1,486	1,974
Travel, training and meetings	1,025	1,424
Guard services	988	1,083
Corporate/social responsibility	721	846
Waste diversion	650	640
Bank charges and armoured car	404	442
Market surveys	263	448
Insurance	250	218
Memberships and subscriptions	230	217
Telephone	212	237
Other	158	146
Publications	104	147
Postage and courier	75	96
Actuarial gain on post employment benefit (note 9)	(369)	-
	<u>\$ 101,446</u>	<u>\$ 101,283</u>

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# **Nova Scotia Liquor Corporation**

## **Notes to the financial statements**

March 31, 2014 (in thousands)

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### **13. Capital management**

The Corporation does not have share capital or long term debt. Its definition of capital is cash and retained earnings. The Corporation's main objectives for managing capital are to ensure sufficient liquidity in support of its financial obligations to achieve its business plans and to continue as a self-sufficient going concern entity in order to provide continuous remittances to the Province of Nova Scotia.

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### **14. Post-reporting date events**

No adjusting or significant non-adjusting events have occurred between the reporting date and the date the financial statements were authorized for issue.