

PEI LIQUOR
ALCOOL Î.-P.-É.

Please drink responsibly

PEI Liquor Control
Commission

68TH ANNUAL REPORT

For the Year Ended
March 31ST, 2016



RETURN ON INVESTMENT

We provided a dividend of \$39.37 million to the Province of PEI, a year over year increase of over \$1.7 million.

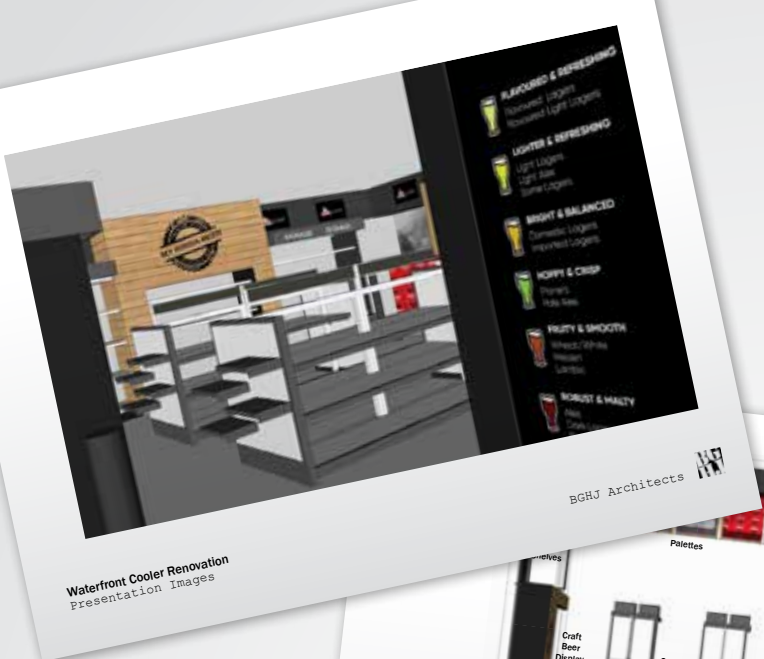
BUY PEI COMMITMENT TO LOCAL

PEI product is on display & promoted in all LCC retail stores, on the new LCC website, and through social media, net sales of Island products was \$2,549,719 - an increase of 8%



CHECK 30 REQUIRED TO CHECK & VERIFY

In 2015-2016, commission store staff checked 206,510 people suspected of being underage, intoxicated or with no ID.

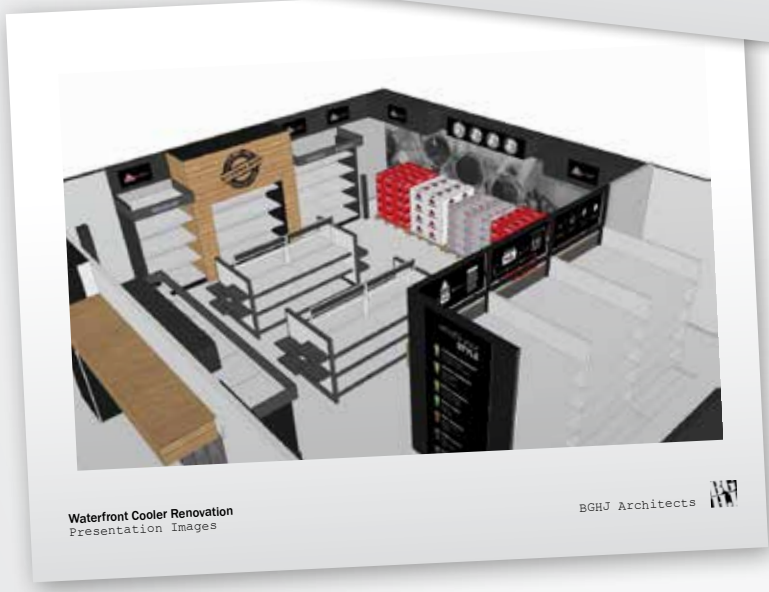


Waterfront Cooler Renovation
Presentation Images



Waterfront Cooler Renovation
Presentation Images

Floor Plan
BGHJ Architects



Waterfront Cooler Renovation
Presentation Images

BGHJ Architects

Corporate Vision

The Prince Edward Island Liquor Control Commission will be recognized as a truly superior retailer in Prince Edward Island. We will achieve this through quality products, modern technology and increased services. We will be the provincial leader in relationships with our partners, customers and suppliers. We will always strive for the best possible value for our customers, staff and other stakeholders.

Mission Statement

The PEI Liquor Control Commission regulates the sale of beverage alcohol under the authority of the PEI Liquor Control Act. It manages the distribution of alcohol by:

- operating in a socially responsible manner;
- achieving the revenue goals of the Provincial Government;
- providing suppliers with controlled access to the marketplace on a fair basis from modern, attractive venues;
- encouraging responsibility and moderation in the consumption of beverage alcohol; and
- providing its employees with equality of opportunity and increased training programs that assist in the individual's personal development and in the commission's overall customer service strategy.

Corporate Values

- **Moderation** – We promote responsible use as a way of life.
- **Quality Service** – We take pride in the quality of our work. We strive for excellence in caring for our customers, suppliers and one another.
- **Continuous Improvement** – As a retailer, we welcome change. We are committed to continuous improvement to all of our services.
- **Integrity and Fairness** – We take responsibility and are fully accountable for our actions, decisions and behaviour. We meet our commitments and obligations to co-workers, customers and business partners. We are open, honest and fair.
- **Importance of People** – We are committed to fostering a positive workplace that builds teamwork, mutual respect and encourages individual development.
- **Focus on Results** – We are committed to getting the job done and improving our productivity levels.



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Message from the Minister



The Honourable H. Frank Lewis
Lieutenant Governor of Prince Edward Island
PO Box 2000
Charlottetown, PE C1A 7N8

May It Please Your Honour:

Pursuant to the PEI Liquor Control Act and as Minister designate, it is my privilege to submit the 68TH Annual Report of the Prince Edward Island Liquor Control Commission.

Respectfully submitted,

A handwritten signature in black ink that reads "Allen A. Roach." The signature is written in a cursive style.

Allen Roach,
Minister Department of Finance
Minister Responsible for the PEI Liquor Control Commission

Message from the Chairman



The Honourable Allen Roach Minister of Finance
Minister Responsible for the PEI Liquor Control Commission
PO Box 2000
Charlottetown, PE C1A 7N8

Sir:

In compliance with Section 87(3) of the PEI Liquor Control Act, it is my honour to submit this 68TH Annual Report of the Prince Edward Island Liquor Control Commission covering the fiscal year April 1, 2015 to March 31, 2016.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Q. Bevan', followed by a long horizontal flourish.

Quentin Bevan,
Chairman

Message from the Acting CEO



Mr. Quentin Bevan, Chairman
PEI Liquor Control Commission
PO Box 967
Charlottetown, PE C1A 7M4

Dear Mr. Bevan:

I am pleased to report that the PEI Liquor Control Commission (PEILCC) has surpassed its previous year's transfer to government for the 20TH consecutive year. The PEILCC had returns to the Government of Prince Edward Island of over \$39.37 million for the fiscal year ending March 31, 2016.

Gross receipts increased by more than \$3.9 million to over \$105 million, making this past fiscal year a very successful one for the PEILCC. The PEILCC wishes to recognize the foresight, dedication, and determination of both our staff and Board of Commissioners for contributing to this success.

I want to thank all PEILCC employees for their valuable contributions and hard work this year. Thank you also to the ongoing commitment and leadership of the Executive Management team and to the continued support of the PEILCC Board.

We have a great team at the PEILCC and we look forward to working together in the year ahead.

Yours truly,

A handwritten signature in black ink, appearing to read 'Andrew MacMillan', written in a cursive style.

Andrew MacMillan
Acting Chief Executive Officer

Corporate Governance

Corporate governance describes the process and structure for overseeing the direction and management of a crown corporation so that it effectively fulfills its mandate. This involves both its public policy and commercial objectives. It defines who is responsible for what, and how to ensure accomplishment and accountability.



Liquor Control Commission Board

Standing: James Gormley, Legal Council, John Bell, Member, Lisa MacKinnon, Secretary, Robert Lord, Member, Bill MacLellan, Member, Seated: Pauline Wood, Vice Chair, Quentin Bevan, Chairman, Andrew MacMillan, Acting Chief Executive Officer

Mandate of Commission Board

The mandate of the board is to supervise the business affairs of the commission. Its most important responsibilities are:

- ensuring that the PEILCC provides high-quality service to the public;
- developing and approving the strategic plan and monitoring management's success in meeting the strategic plan;
- approving annual financial plans;
- assessing and managing business risks and;
- ensuring that the PEILCC performs its regulatory role in a fair and impartial manner.

Accountability to Government and Public

The PEILCC is held accountable by the Government and people of PEI in a number of ways, including:

- the Annual Report, tabled in the Provincial Legislature and available for all Islanders to review, either in print or online at www.liquorpei.com;
- annual audits of the PEILCC's financial statements by the Auditor General;
- public access to records under the Freedom of Information and Protection of Privacy Act;
- publicly appointed commission members.

Appointment of Members of the Commission

The Lieutenant Governor in Council, through an order-in-council, appoints the members of the commission, establishes the honourariums and designates the chair and vice-chair.

Responsibilities of Commission Members

Each commission member has individual responsibility for corporate governance including:

- acting honestly and in good faith in making decisions with a view to the best interests of the PEILCC and all its stakeholders;
- overseeing the management of the business affairs of the PEILCC;
- avoiding conflicts of interest;
- having adequate knowledge of the PEILCC's business, how it is organized and how it functions;
- attending commission meetings and seeking professional advice where necessary;
- providing guidance on policy development;
- reviewing appeals of listing applications.

Audit Committee

The Audit Committee is elected annually and consists of three commission members in addition to the chairman and the CEO as ex-officio. The committee ensures the reliability and accuracy of the PEILCC's financial statements, helps co-ordinate and improve internal control functions, and ensures the PEILCC adheres to sound corporate governance principles.

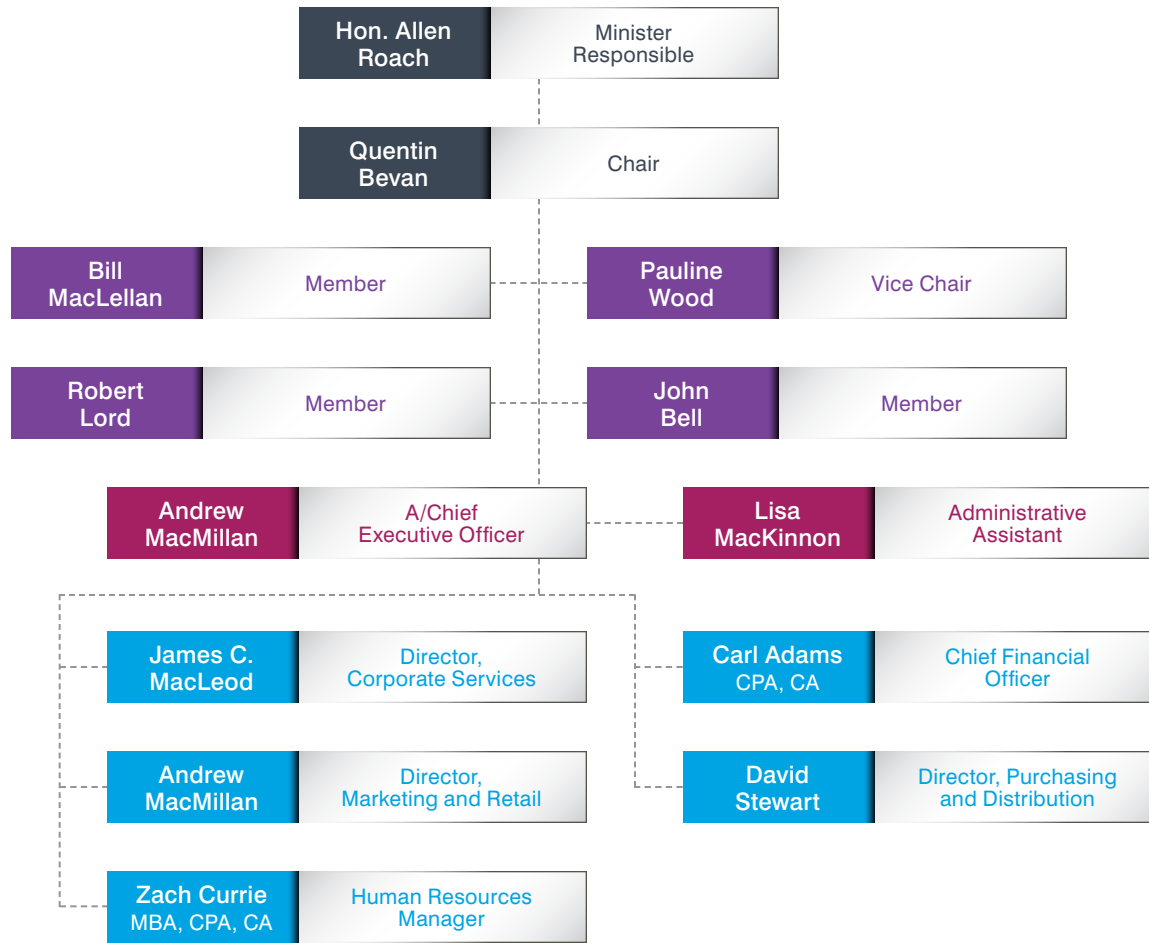
Strategic Planning Committee

The Strategic Planning Committee is elected annually and consists of three commission members in addition to the chairman and CEO as ex-officio. The purpose of the committee is to review and evaluate the corporate plans and to make any recommendations to the board in relation to those plans that the committee considers appropriate.





Organizational Chart



Executive Summary

The Prince Edward Island Liquor Control Commission (PEILCC) is a crown corporation responsible for the administration of the Liquor Control Act and Regulations, along with the purchase, control and sale of all beverage alcohol in the province.

A five-member Board of Commissioners is responsible for the commission's activities. The chairperson reports to the minister responsible for the PEI Liquor Control Commission.

The mandate under the Liquor Control Act has two primary components: regulatory and commercial. The regulatory function responsibilities include:

- licensing and inspecting licensed premises and special permit events;
- investigating and reporting on all licensee or special permit complaints and determining whether there were infractions of the Liquor Control Act; and
- making recommendations to government on amendments to legislation.

On the commercial side, the commission continues to be a major force in the provincial economy with gross receipts in excess of \$105 million, making it one of the largest retail organizations in Prince Edward Island.

In terms of monetary transfers to the Provincial Treasury, this past fiscal year saw \$39.37 million returned to the Province, a year over year increase of over \$1.7 million.

The commission currently operates 18 corporate retail outlets, as well as a central warehouse and Licensee Distribution Centre located in Charlottetown. The commission has contracted with private interests for the operation of a Liquor Agency store in eight locations: Cavendish, East Royalty, Eldon, Kinkora, Morell, Murray Harbour, Wood Islands and Charlottetown - Founder's Hall.

A strategic plan is in place that guides the commission to success in meeting its performance and accountability goals.

The commission focuses on the following five key areas to measure performance:

1. Public Safety and Social Responsibility;
2. Financial Performance;
3. Customer Service;
4. Business Effectiveness; and
5. Workplace Quality and Employee Excellence.

These areas serve as a blueprint for incorporating the Mission Statement into day- to-day activities and establishing strategic goals, the details of which are explained in further detail in this report.

Sommaire

La Régie des alcools de l'Île-du-Prince-Édouard (RAÎPÉ) est une société de la Couronne responsable de l'administration de la Liquor Control Act (loi sur le contrôle des alcools) et de ses règlements, ainsi que de l'achat, du contrôle et de la vente de toutes les boissons alcoolisées dans la province.

Un conseil de cinq commissaires est responsable des activités de la Régie. La présidence fait rapport au ministre responsable de la Régie des alcools de l'Île-du-Prince-Édouard.

Le mandat relevant de la Liquor Control Act a deux composantes principales, une de réglementation et l'autre commerciale. Les responsabilités réglementaires comprennent l'octroi des licences et l'inspection des débits de boisson et des événements nécessitant des permis spéciaux, l'enquête et les rapports de plaintes portant sur les détenteurs de licences ou de permis spéciaux, la prise de décisions concernant les infractions à la Liquor Control Act et les recommandations au gouvernement au sujet de modifications à la loi.

Du côté commercial, la Régie continue d'être un levier important de l'économie de la province avec des recettes brutes dépassant les 105 millions de dollars, ce qui en fait un des plus importants organismes de vente au détail de l'Île-du-Prince-Édouard.

En termes de transferts monétaires au Trésor provincial, 39,37 millions de dollars ont été remis à la Province au cours de la dernière année financière. Ce montant représente une augmentation de plus de 1,7 million de dollars d'une année à l'autre.

À l'heure actuelle, la Régie exploite 18 magasins d'alcool ainsi qu'un entrepôt central et un centre de distribution pour les détenteurs de licences situé à Charlottetown. La Régie a passé des contrats avec le secteur privé pour les activités de huit magasins de franchise aux endroits suivants : Cavendish, East Royalty, Eldon, Kinkora, Morell, Murray Harbour, Wood Islands et Charlottetown (Salle des fondateurs).

Un plan stratégique est en place pour guider la Régie dans l'atteinte de ses objectifs de performance et d'imputabilité.

La Régie concentre ses efforts sur les cinq domaines principaux suivants afin de mesurer sa performance :

1. la sécurité publique et la responsabilité sociale;
2. la performance financière;
3. le service à la clientèle;
4. l'efficacité des opérations; et
5. la qualité du milieu de travail et l'excellence des employés.

Ces domaines servent de plan directeur à l'intégration de notre mission dans nos activités quotidiennes et à l'établissement de buts stratégiques, dont les détails sont présentés dans le présent rapport.

Operational Overview

The Prince Edward Island Liquor Control Commission's Strategic Plan continued to guide activities through fiscal 2015-2016. Progress on strategic objectives is supported by annual business plans that set priorities for actions to meet objectives and timelines for their completion. The following is an overview of the performance in each of the five strategic objectives:

Goal 1 Financial Performance

Goal

To maximize net income within the policy guidelines established by the provincial government.

Objectives

1. Achieve or exceed planned monetary transfer to the Provincial Government.
2. Achieve or exceed net income targets.
3. Increase traffic through liquor stores.

	Actual 2014-2015	Budget 2015-2016	Actual 2015-2016	% of 2015-2016 Budget	Budget 2016-2017
Gross Receipts	\$101,441,045	\$102,980,000	\$105,342,461	102.3%	105,400,000
Gross Profit	31,690,260	32,644,400	32,701,325	100.2%	33,000,000
Operating Expenses	14,221,571	14,506,000	14,467,838	99.7%	14,686,400
Net Income	19,706,475	20,647,000	20,644,718	99.9%	20,785,600
Monetary Transfers*	37,684,265	39,066,000	39,368,469	100.8%	39,425,600

The PEI Liquor Control Commission delivered both an increased net profit and an increased transfer to the provincial government in fiscal 2015-2016.

Gross receipts were \$105,342,461 for the fiscal year ended March 31, 2016, an increase of \$3,901,416 over the previous year. This increase came as a result of new sales and marketing initiatives.

Net transfers for the year totaled \$39,368,469. This year's performance resulted in a \$1,684,204 increase in the PEILCC's contribution to the province over the previous year.

Performance Highlights

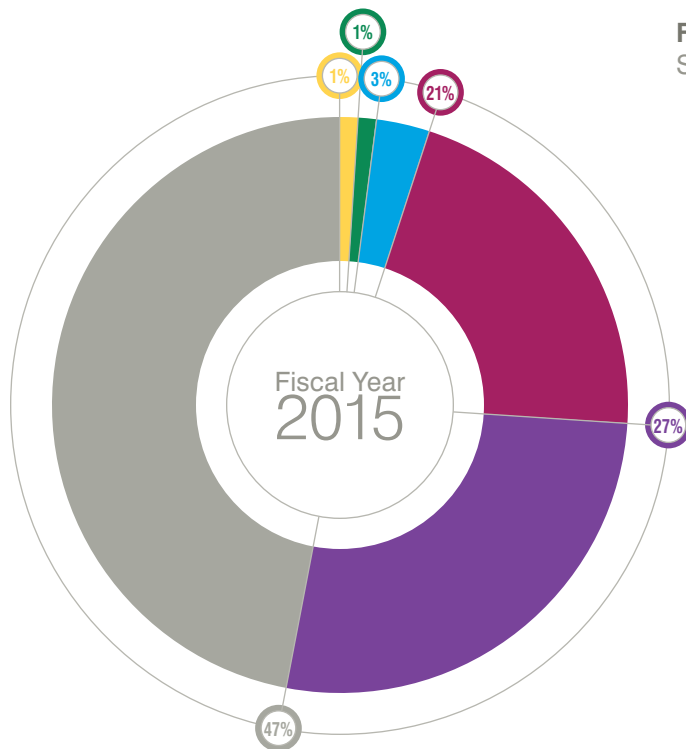


Figure A
Sources of Gross Receipts

- Spirits
- Wine
- Coolers
- Merchandising
- Other
- Beer

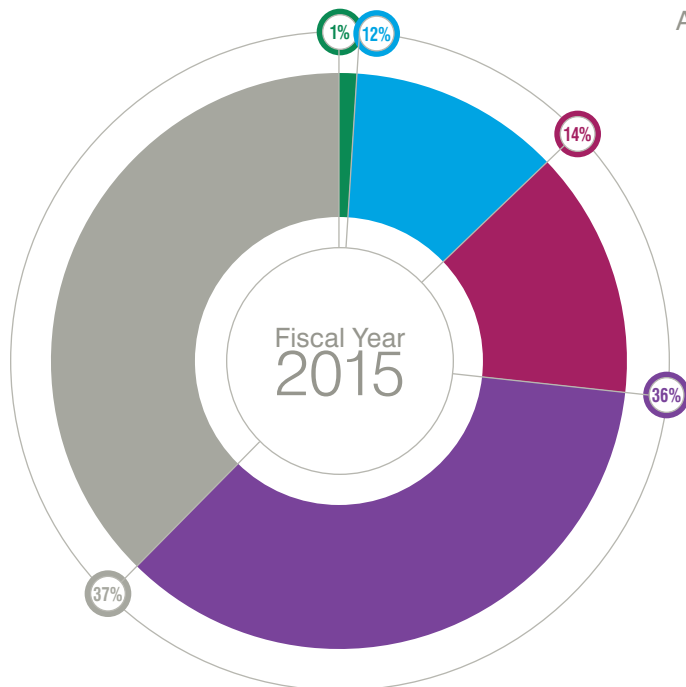


Figure B
Application of Gross Receipts

- Payments to Province
- Administrative Expenses
- Federal Taxes
- Purchase of Capital Assets
- Suppliers



The commission spent approximately \$40.5 million on alcohol from both national and international sources. Gross margins increased slightly due to one-time only marketing promotions.

Goal 2 Customer Service

Goal

To understand the needs of our customers so that we can provide quality products and services that are delivered by knowledgeable, courteous employees in attractive and accessible facilities.

Objectives

1. Enhance the shopping experience for PEILCC wholesale and retail customers.
2. Provide enhanced customer services.
3. Improve product portfolio.

	Actual 2014-2015	Target 2015-2016	Actual 2015-2016	% of 2015-2016 Target	Target 2016-2017
Customers served	2,534,408	2,520,000	2,606,393	103.4%	2,600,000
Average customer transaction value	\$40.03	\$40.86	\$40.42	98.9%	\$40.54

Litres	Actual 2014-2015	Target 2015-2016	Actual 2015-2016	% of 2015-2016 Target	Target 2016-2017
Beer	8,385,606	8,301,750	8,483,245	102.2%	8,480,000
Draught	829,201	837,000	908,327	108.5%	911,500
Spirits	825,605	833,850	836,966	100.4%	836,900
Wine (including BYO)	1,444,300	1,480,000	1,537,717	103.9%	1,538,000
Coolers	417,255	425,600	442,525	104.0%	440,000
Total	11,901,967	11,878,200	12,208,780	102.8%	12,206,400

Performance Highlights

Packaged beer has increased by 97,639 litres over the previous year driven mainly by large pack promotions and craft beer. Mainstream beer continues to follow the national trend. Draught beer has shown an increase of 79,126 litres over last year driven primarily by the craft beer segment. This is primarily due to national trends. The Cooler category continues to be popular with volumes slightly higher over last year's performance with total of 442,525 litres sold. The Spirit category was up 11,361 litres from the previous year, selling 836,966 litres compared to 825,605 litres in the previous year. Sales continue to trend toward more premium products which is evidenced by the increase in the value of the average customer transaction.

The Wine category continued to display strong performance again in 2015-2016 selling a total of 1,537,717 litres, an increase of over 93,417 litres from the previous year. New offerings continued to drive growth in both sales and volume in this category. The availability of one time offerings throughout the year has also been popular with customers. The PEILCC continues to expand the Vines concept to include many PEILCC retail outlets displaying these products as a portion of each location's shelf set.

A number of supplier supported themed campaigns ran throughout the course of the year including themes such as Island Style which helped to promote Local food and drink pairings with recipes. The Island Rivers – Worth Protecting campaign was popular again and the annual holiday campaign offered \$10 gift cards for every \$50 spent on gift cards.

Similar displays across the corporate retail network permitted products to be featured in a like fashion and provides consistency across all locations. Local producers continue to benefit from exposure of having their products featured on 'Buy PEI' displays as well as on the shelves with products of their respective category.

The Charlottetown Civic Centre served as the venue for the 21ST Prince Edward Island Liquor Control Commission's Festival of Wines. The third party that was engaged to manage the planning and execution of the festival has turned the Festival into one of the must attend events of the year. The PEILCC continues to operate the on-site retail boutique featuring the wines of the festival.

This event featured more than 250 wines, many of which are now included among the PEILCC's general listings. The 2015 festival included Spain as its feature region. Wines from this country were promoted throughout the PEILCC retail network leading up to the festival as well as on site during the event. The feature region concept continues to provide profile not only to the region but also to the Festival of Wines as a whole.

The Commission also participated in other events during the year including the 7th annual PEI Savour Food and the PEI Beer Festival. Both of which helped generate interest across each of the beer, spirits and wine categories.

A number of PEILCC retail employees have taken advanced training in the WSET program, providing them with an additional level of expertise which is beneficial when helping customers with product options. This training combined with other initiatives led by the Commission's Category Managers, have contributed to the development of all categories and the growth of overall sales.



Goal 3 Business Effectiveness

Goal

To improve operating efficiencies and manage business practices in a climate of continuous change.

Objectives

1. Operate the business in the most effective and efficient manner possible.
2. Maximize the efficiency of the PEILCC liquor distribution operation.

	Actual 2014-2015	Target 2015-2016	Actual 2015-2016	% of 2015-2016 Target	Target 2016-2017
Distribution Centre fill rate	87.18	90.00%	89.57%	99.52%	90.00%
Distribution Centre stock-out rate	2.46%	8.00%	3.03%	12.00%	8.00%
Warehouse inventory turns/day	78.82	79.00	75.61	95.71%	79.00
Store inventory turns/day	35.13	34.00	32.98	97.00%	34.00
Gross Receipts per Square Foot (Retail and Licensee)	\$811.74	\$819.44	\$858.66	104.79%	\$859.12

Performance Highlights

The commission set inventory turnover goals at the beginning of the fiscal year as part of its strategic plan. These turnover ratios were based on the year ended March 31, 2015 to measure inventory efficiencies.

The commission has been better able to manage the days in inventory and the warehouse level in order to meet the needs of our customers. Store inventory turns are up slightly from last year which can be attributed to the increase in the number of products held in store inventory and necessary to fulfill customer demands.

An improved store ordering process continues to keep store inventories in check and ensured better distribution and availability of inventory across the retail network. In addition, the central warehouse has been reconfigured to optimize space and manage warehouse efficiency.



Goal 4 Public Safety and Social Responsibility

Goal

In partnership with community groups and suppliers, the PEILCC will strive to raise public and staff awareness of the responsible use of beverage alcohol.

Objectives

1. Eliminate sales to minors and intoxicated people.
2. Continue to increase the awareness and promote public awareness of issues surrounding responsible use of beverage alcohol.
3. Increase, through partnerships, the effects of the responsible use of alcohol.

	Actual 2014-2015	Target 2015-2016	Actual 2015-2016	% of 2015-2016 Target	Target 2016-2017
% of licensees and permit holders in compliance with legislation, regulations and policies	98.6%	95%	98%	103.8%	95%
% of license and permit applications completed within established time frames*	100%	100%	100%	100%	100%
Shrinkage (% of gross receipts)	0.00%	0.02%	0.01%	0.01%	0.02%
*Time frame – 7 days for permits, 21 days for licenses.					

Performance Highlights

The PEI Liquor Control Commission continues to promote the responsible use of alcohol. The commission strives to provide products that are socially responsible and incorporates responsible messaging into product promotions.

Ongoing responsible use initiatives include: Challenge and Refusal, and ID Training for PEILCC retail and liquor agency staff, Check 30 ID Program, HOST booklet and various responsible use messages during graduation, long weekends, Christmas and New Year's celebrations. Responsible Use messages were promoted throughout the year using local media as well as Social Media.

The Prince Edward Island Liquor Control Commission continued its support of MADD Canada's Multi-media School Assembly Program during the 2015-16 school year, with ten presentations of the English language version 24 HOURS and two of the French language version, which took place in high schools across

the Island. The commission provided ongoing support for MADD Canada's campaign 911, and expanded the in-store retail ice program in a number of corporate retail outlets which also benefits the work of MADD Canada.

The commission continued to participate on a number of committees promoting responsible use including the Ad Hoc Working Group on Impaired Driving Prevention, and the Canadian Liquor Jurisdictions Social Responsibility Committee.

The fifth year of an at-cash campaign benefiting the PEI Region of the Canadian Red Cross, was successful in generating over \$34,000 to continue the support of community programs and relief to Islanders in the time of need.

The PEILCC also completed the fifth and final year of a five year agreement with the Atlantic Salmon Conservation Foundation (ASCF) with over \$18,000 collected through this supplier supported campaign. A portion of sales from a variety of products, were donated to the ASCF

to assist with projects that help protect and rejuvenate rivers across the province. The Total for the five year commitment was \$ 96,043

The Heart and Stroke Foundation's Paper Hearts campaign took place for the Fifth year in 2015 and was successful in raising over \$13,000. The Foundation uses these funds to continue the advancement of research, promotion of healthy living and advocacy.

The Canadian Cancer Society and the PEILCC partnered again in 2016 for a very successful fundraiser. Pin sales from local liquor stores showed an increase over last year collecting \$12,322 with the support of generous Islanders.

The PEILCC actively assists various groups and causes through coin box collections in all corporate retail outlets. Groups receiving from this activity during this fiscal year included ALS Society of PEI , Big Brothers Big Sisters of PEI, Cerebral Palsy Association of PEI, Crohn's and Colitis Foundation of Canada, MADD Canada, MS Society Spay Aid, Nature Conservancy of Canada (PEI) Inc. and the Prince Edward Island Rape and Sexual Assault Centre.



1. Laura Johnson-Montigny, Provincial Director, Canadian Red Cross presents Quentin Bevan, Chairman of the PEILCC Board with The Canadian Red Cross National Partners in Humanity Citation.
2. Hon. Allen Roach, Minister Responsible for the PEI Liquor Commission, presents a cheque of \$12,322 to Laurie Barker, PEI Division, Canadian Cancer Society.
3. Andrew MacMillan, A/C PEILCC, Quentin Bevan, Chairman, PEILCC presenting Linda Somers, Manager of the West Royalty Liquor Store with the 2015-2016 Annual CEO Award of Merit for Loss Prevention.



During the fiscal year, the commission continued its commitment to social responsibility in the areas of alcohol service and community support. The PEILCC partnered with a number of outside agencies in shared activities including:

- Participation as an active member of the Canadian Association of Liquor Jurisdictions (CALJ) Social Responsibility Committee.
- Affiliation with the Culinary Institute of Canada, to provide the mandatory server program, It's Our Business, an awareness program for staff of licensed premises.
- Raising monies for ALS Society of PEI, Canadian Diabetes Association, Easter Seals Society of PEI, IWK Health Centre Foundation, Parkinson Society of Canada, Prince County Hospital Foundation and the QEH Foundation through staff dress-down days and other staff events raising over \$6,000.
- Generating over \$1,800 in support of the Hospice Palliative Care Association of PEI through proceeds from the silent auction, held during the 21th annual Festival of Wines.

Optimal compliance to the Liquor Control Act, Regulations and Policies is a primary objective of the commission. Retail staff are required to check and verify the age of customers and refuse minors or intoxicated persons. In 2015-2016, commission store staff checked 206,510 people suspected of being underage, intoxicated or with no ID and refused service to 3,997. Liquor inspectors performed 3,975 compliance inspections and 3,326 ID checks in licensed premises.

After evaluating all stores in relation to established criteria, the staff of the West Royalty store was awarded the Annual CEO's Award of Merit for Loss Prevention for fiscal 2015-2016.

In January 2015 the commission launched Check 30 across all corporate retail and Liquor Agency outlets. This program replaced the Check 25 program which had been in place since August of 2006. In September 2016 the Check 30 program was re-launched in all Island Liquor outlets.



Goal 5 Workplace Quality and Employee Excellence

Goal

Build a customer-focused, high-performance work environment that results in greater employee involvement, development, innovation and creativity.

Objectives

1. Enhance staff skills through employee training programs.
2. Continue to develop a customer-focused workplace.
3. Provide a safe, healthy and harassment-free workplace.

	2014-2015 Target	2014-2015 Actual	2015-2016 Actual	2015-2016 Target	Target %
Workplace quality training	116	143	69	130	53%
Product advisor training	109	224	113	85	103%
Product knowledge books (LCBO)	37	72	113	50	226%
Staff development (professional and personal)	118	90	78	120	91%

Performance Highlights

Training is offered to PEI Liquor Control Commission employees on an on-going basis. The Product Knowledge Course, offered in conjunction with the Liquor Control Board of Ontario (LCBO) is available to all staff, providing an opportunity to expand their product knowledge.

In addition to the LCBO program a wine appreciation and knowledge course is offered by the Category Manager of Wine. This intensive program is aimed at ensuring knowledgeable staff are available in PEILCC stores to assist customers when selecting wines and to provide suggestions for food and wine pairing.

PEILCC staff benefit from product seminars throughout the year. These sessions have included industry led seminars as well as opportunities to visit local producers in order to learn firsthand how products are made.



2016 Wine Festival Boutique Product Specialists (left to right)

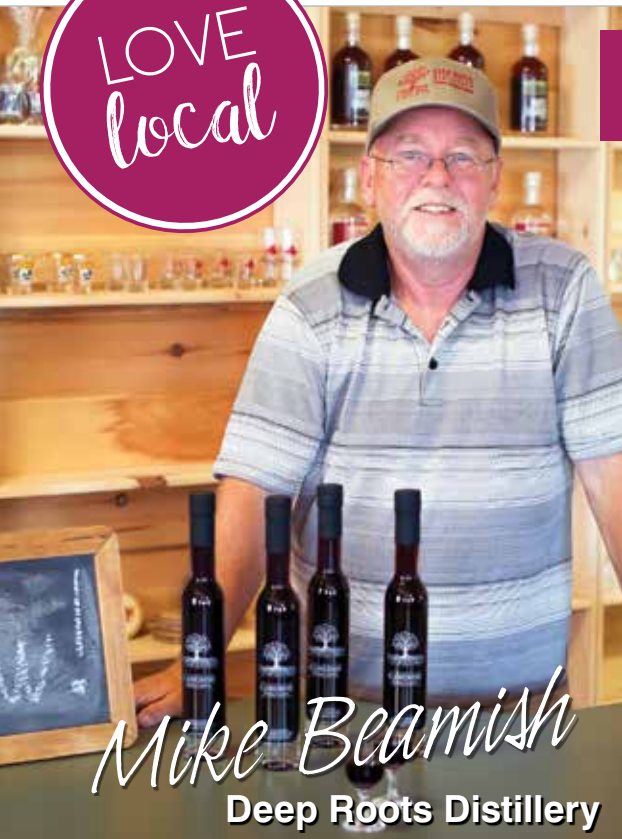
Judy Hornyik, Heather LeBlanc, Debbie Smith, Trent Deroche, Dianne MacKinnon, Carol Dunn, Bonnie Jean MacEachern

The PEILCC is very conscious of the need for safety awareness in the workplace, not only for employees but also for customers. It is for this reason that First Aid and CPR training is made available to all staff on an annual basis. In the future, more emphasis will be placed in this area with regard to seasonal employees who are hired during the peak summer season and experience a high concentration of customer traffic.

Occupational Health and Safety (OH&S) plays an important role in the PEILCC's day to day operations. The PEILCC ensures that OH&S representatives receive updated training on their responsibilities, including courses that ensure safe workplaces for both employees and customers. Identification verification seminars were offered for and attended by a cross-section of corporate retail and liquor agency staff.

These presentations provided the opportunity for staff to increase their skills in the recognition of altered identification. PEILCC staff continue to pursue training and education through courses offered by universities and other post secondary institutions.

Those employees who are interested in advancing to management roles have been actively involved in business management training during recent years. The PEILCC continues to support staff development and training and the province's Development and Training Fund continues to provide assistance to employees as they pursue advanced training opportunities.



FEATURED PRODUCER

How did Deep Roots Distillery get started?

Our orchard has been open since the mid-1990's and we grow organic apples on-site that we use to make cider and for fresh sales. About four years ago, when my wife, Carol, and I were looking at retirement plans, we were exploring what to do with the excess apples as there are always some apples that fall off the trees, and are good to eat, but we couldn't sell them fresh or in the cider.

While working with BioFoodTech to develop apple butter, I read an article that said that if you ferment and distill the apples, you could use dropped apples. So, I mentioned that to the BioFoodTech staff and that I was looking into taking a course in

Washington, and they decided to offer the course there. I took the course in 2012, and had our first product on the shelf in 2014!

Can people do tours of the distillery year-round?

Not all year, we do tours of the distillery from mid-June to the end of October, and sell at the Charlottetown Farmers' Market all year.

What's the most common question you get when giving tours?

"Is it hard to get a license and is it legal (asking about the Island Tide, a moonshine product)?" And yes, it is legal and getting started and operating a distillery is not for the faint of heart.

Read more in PEI Liquor's **Celebrate E-Flyer**. Subscribe to receive our E-Flyer via email and stay up to date with our latest products, recipes, food pairings and promotions.

A photograph of a glass of white wine and a plate of appetizers, including bread, cheese, and fruit, set on a white tablecloth. The background is softly blurred.

Challenges and Opportunities Ahead

The Prince Edward Island Liquor Control Commission continues to identify opportunities and challenges, as well as to meet the expectations of an increasingly diverse and discerning customer base. Store renovations and a new merchandising strategy have improved the way in which products are displayed as well as the customer experience.

On-going investment and planning is required to meet customers' needs and keep standards moving forward. In addition, continued investment in human resources and financial resources are also necessary to fulfill its strategic plan.

Capital planning is required to provide for future needs. The commission has set its monetary transfer goal to over \$39.4 million for the 2016-2017 fiscal year to help continue investments in our province.

Managing human resources continues to be a key challenge for the PEILCC. It constantly reviews resource needs and training opportunities to meet changing retail and technology requirements.

A disciplined category management approach, working in co-ordination with the supply chain, has provided a more efficient system to get products from the commission's international supply chain onto its store shelves. The PEILCC continues to investigate new opportunities for products and their distribution to meet the ever evolving customer demands.

The commission's commitment to social responsibility presents ongoing opportunities to communicate and reinforce the message of responsible use and public safety to a wide range of audiences.

Underlying all of these challenges and opportunities is the vision of excellence in management. Being prepared to capitalize on new opportunities in the marketplace and continuing to integrate and streamline operations is key. The PEILCC is confident that it is building an organization which is internally more efficient and will continue to be publicly accountable.



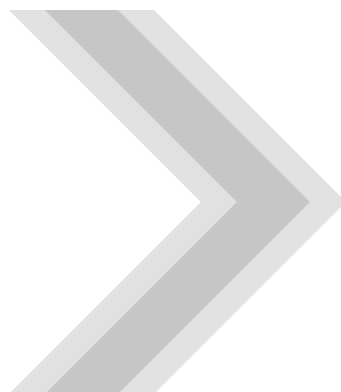
Corporate Retail Outlets	Liquor Agency Stores
Alberton	Cavendish
Borden-Carleton	Charlottetown – Founders Hall
Cardigan	East Royalty
Cornwall	Eldon
Kensington	Kinkora
Montague	Morell
North Rustico	Murray Harbour
Oak Tree	Wood Islands
O’Leary	
Queen Street	
Souris	
Stratford	
Summerside – Granville Street	
Summerside – Waterfront Mall	
Tignish	
Tyne Valley	
Wellington	
West Royalty	

Statistics

Retail Gross Receipts by Store

Retail Store	Year Ended March 31, 2016	Year Ended March 31, 2015	Increase (Decrease)
Alberton	1,718,586	1,607,913	110,673
Borden/Carleton	1,949,355	1,807,420	141,935
Cardigan	2,081,235	1,954,008	127,227
Charlottetown - Oak Tree Place	15,021,476	14,787,585	233,891
Charlottetown - Queen Street	3,759,111	3,549,153	209,958
Cornwall	5,439,318	5,242,169	197,149
Kensington	3,338,298	3,198,099	140,199
Licensee Distribution Centre	17,413,524	17,492,369	(78,845)
Montague	5,210,290	5,026,546	183,744
North Rustico	3,119,377	2,975,728	143,649
O'Leary	2,001,768	1,940,520	61,248
Souris	2,956,208	2,728,251	227,957
Stratford	8,907,701	8,500,865	406,836
Summerside - Granville Street	8,260,602	8,058,923	201,679
Summerside - Waterfront	4,514,644	4,318,801	195,843
Tignish	2,936,396	2,664,881	271,515
Tyne Valley	1,232,915	1,125,592	107,323
Warehouse/Other	1,428,619	1,358,894	69,725
Wellington	1,342,232	1,322,606	19,626
West Royalty	12,710,806	11,780,722	930,084
Total	105,342,461	\$101,441,045	3,901,416

**BUY
PEI**
**COMMITMENT
TO LOCAL**



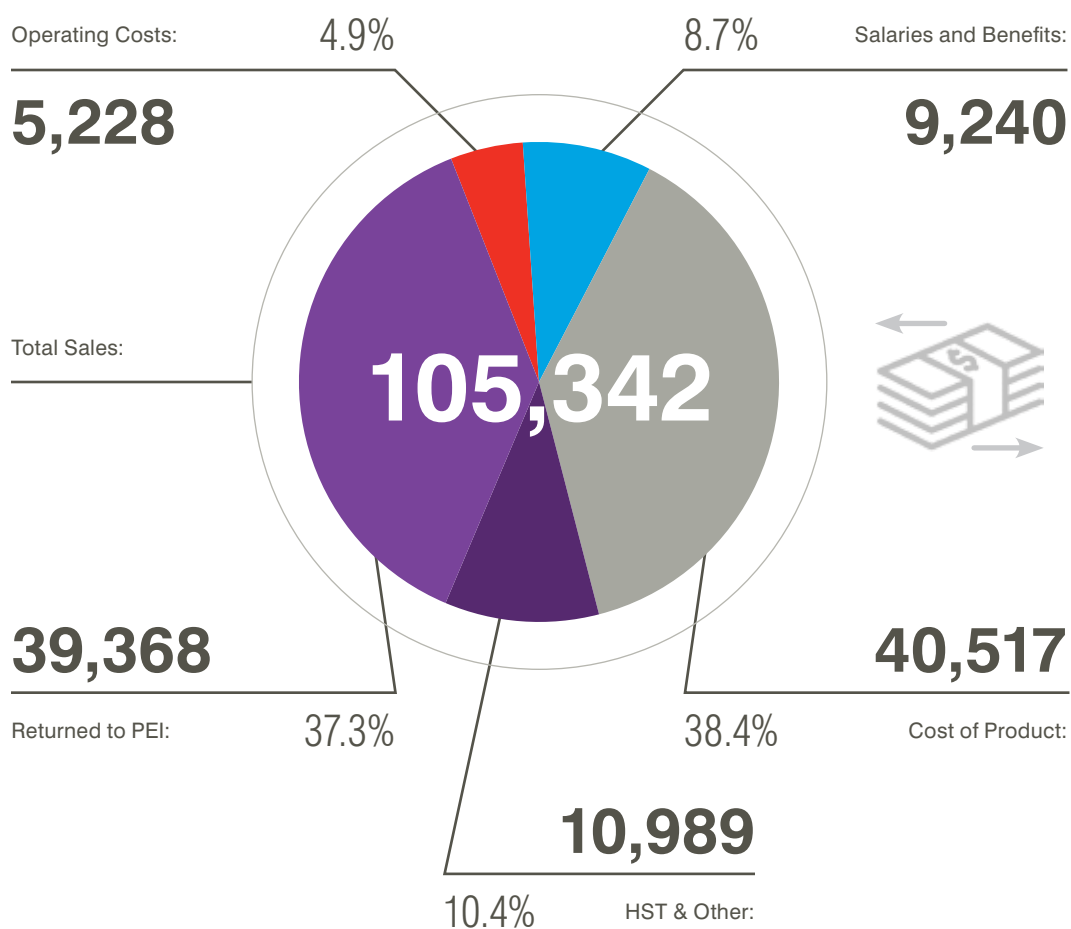
PEI product is on display and promoted in all LCC retail stores, on the new LCC website and through our social media channels, net sales of Island products was \$2,549,719, an increase of 8%.

Statistics

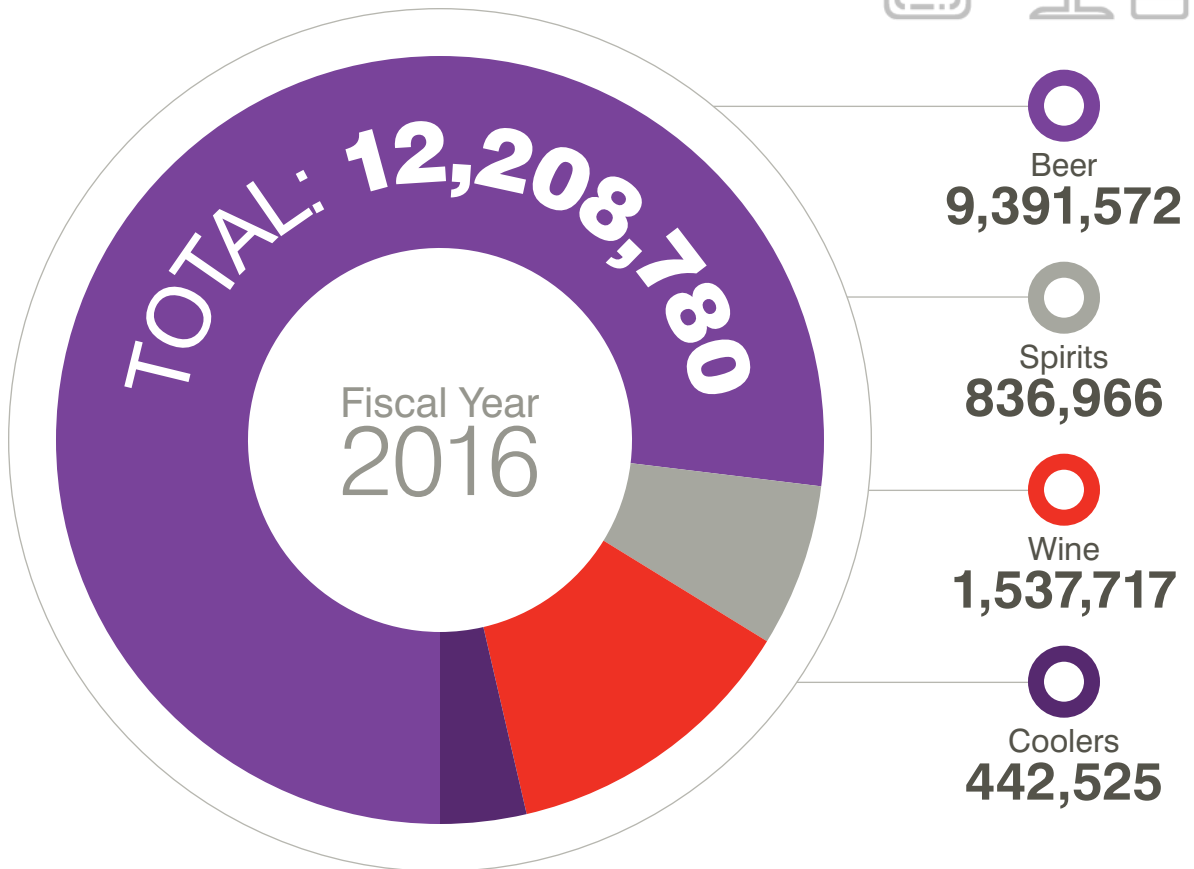
Summary of Profit and Expense Ratios Two-year Comparison

	(in 000s)	
	2016	2015
Gross Receipts	105,342	101,441
Gross Profit	32,701	31,690
Net Income	20,645	19,706
General and Administrative Expenses	14,468	14,222
Gross Profit as a Percentage of Gross Receipts	31.04%	31.24%
Net Profit as a Percentage of Gross Receipts	19.60%	19.43%
General and Administrative Expenses as a Percentage of Gross Receipts	13.73%	14.02%

Our Spending... All Profits Stay Here



Sales Volumes... (litres) by Category



FEATURED PRODUCT ADVISOR

Trent
Deroche

What changes have you seen over the past number of years?

When I began working with PEI Liquor in 1997 the selection was limited. Imported beer was almost non-existent, and the craft beer industry had yet to emerge. The wine selection consisted of "safe and sellable" offerings from France, Italy, and Ontario with some entry level offerings from California. There was a lot of rum, vodka, and whiskeys, although none of the flavour-infused products that we have now.

Today, we have a constantly changing beer selection with

products from all over the world and wines at every price point from almost every noted wine region in Europe, the Americas, Africa, New Zealand, and Australia.

What is your favourite part about working at PEI Liquor?

Working at PEI Liquor offers me the opportunity to continually improve my product knowledge. The emphasis on staff training has really enhanced the customer experience in our stores. Completing the Wine and Spirit Education Trust (WSET) Level 3 course inspired me to continue learning by studying and



**Total Licenses and Special Permits
March 31, 2014 and March 31, 2015**

License Type	Year Ended March 31, 2016	Year Ended March 31, 2015
Dining Room	193	183
Lounge	94	92
Club	46	48
Military Canteen	20	20
Special Premise	99	93
Caterer	23	25
Agency Store	1	1
Liquor Agency	7	7
Winery	5	5
Micro-Brewery	4	3
Tourist Home	4	5
Distillery	5	4
Brew Pub	0	0
Ferment on Premises	7	6
Package Sales	9	9
Total Licenses in Effect	517	510

Special Permits Issued	Year Ended March 31, 2016	Year Ended March 31, 2015
Class I	124	138
Class II	184	163
Total	308	301



visiting wine growing regions in Europe and here in North America. It is a real bonus to have an employer that not only supports the broadening of your education but encourages it as well.

Recently you took a vacation to France, how did your career peak your interest in this family vacation?

Yes, recently I was lucky enough to spend two weeks touring a few wine regions in France. I was inspired to visit these iconic wine areas after completing advanced WSET courses as part of training offered by PEI Liquor to increase employee product knowledge.

After spending so much time studying wine regions, their terroirs and associate grape varieties, I wanted to explore and experience them first-hand. Initially I was thinking of Chile and Argentina but when some affordable airfares to Lyon, France popped up on the radar, it seemed like a great opportunity.

.....
*Read more in PEI Liquor's **Celebrate E-Flyer**. Subscribe to receive our E-Flyer via email and stay up to date with our latest products, recipes, food pairings and promotions.*



Management's Report

Mr. Quentin Bevan, Chairman
PEI Liquor Control Commission
PO Box 967
Charlottetown, PE C1A 7M4

Dear Mr. Bevan:

The preparation of financial information is an integral part of management's responsibilities and the accompanying financial statements are the responsibility of the management of the commission. This responsibility includes the selection of appropriate accounting policies and making judgments and estimates consistent with International Financial Reporting Standards.

The commission maintains an accounting system and related controls providing:

- reasonable assurance that transactions are executed and recorded as authorized;
- that assets are properly safeguarded and accounted for; and
- that financial records are reliable for the preparation of financial statements in accordance with International Financial Reporting Standards.

Financial information presented elsewhere in this annual report is consistent with that in the financial statements.



Andrew MacMillan
Acting Chief Executive Officer



Carl J. Adams, CPA, CA
Chief Financial Officer



Appendix

Auditor's Report and Audited Financial Statements



Prince Edward Island Île-du-Prince-Édouard

Office of the
Auditor General

PO Box 2000, Charlottetown PE
Canada C1A 7N8

Bureau du
vérificateur général

C.P. 2000, Charlottetown PE
Canada C1A 7N8

INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the Prince Edward Island Liquor Control Commission

I have audited the accompanying financial statements of the **Prince Edward Island Liquor Control Commission** which comprise the statement of financial position as at March 31, 2016, and the statement of comprehensive income and changes in retained earnings, and the statement of cash flow 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 the 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 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 significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

I believe that 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 Commission as at March 31, 2016, and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

B. Jane MacAdam, CPA, CA
Auditor General

Charlottetown, Prince Edward Island
June 20, 2016

**PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION**

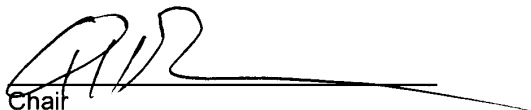
Statement of Financial Position

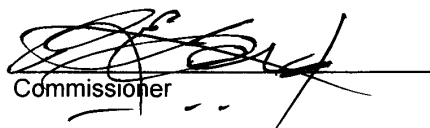
March 31, 2016

	2016	2015
	\$	\$
Assets		
Current Assets		
Cash	3,307,203	2,514,863
Accounts receivable (Note 5)	666,037	777,034
Inventory (Note 6)	7,863,835	7,458,810
Prepaid expenses	<u>160,521</u>	<u>106,325</u>
	<u>11,997,596</u>	<u>10,857,032</u>
Non Current Assets		
Property, plant, and equipment (Note 7)	<u>6,322,635</u>	<u>6,409,164</u>
Total Assets	<u>18,320,231</u>	<u>17,266,196</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	2,606,904	2,137,858
Due to the Province of Prince Edward Island (Note 15)	12,950,202	12,279,437
Deferred revenue	157,328	129,149
Current portion of obligations under finance leases (Note 12)	37,303	34,576
Current portion of debentures payable (Note 9)	<u>354,173</u>	<u>329,379</u>
	<u>16,105,910</u>	<u>14,910,399</u>
Non Current Liabilities		
Obligations under finance leases (Note 12)	1,301,517	1,338,820
Debentures payable (Note 9)	<u>912,804</u>	<u>1,016,977</u>
	<u>2,214,321</u>	<u>2,355,797</u>
Total Liabilities	<u>18,320,231</u>	<u>17,266,196</u>

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

Authorized on behalf of the Prince Edward Island Liquor Control Commission


Chair


Commissioner

**PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION**

Statement of Comprehensive Income and Changes in Retained Earnings
for the year ended March 31, 2016

	2016	2015
	\$	\$
Revenue		
Sales (Note 13)	73,218,613	70,581,370
Cost of goods sold (Note 6)	<u>40,517,288</u>	<u>38,891,110</u>
Gross profit	<u>32,701,325</u>	<u>31,690,260</u>
Expenses		
Depreciation	917,047	889,337
Insurance and property taxes (Note 15)	205,975	202,020
Interest on long-term debt (Notes 9, 15)	58,262	70,633
Interest on finance leases (Note 12)	108,926	119,861
Operating leases (Note 12)	676,720	632,021
Other operating expenses (Note 16)	1,008,220	1,030,616
Repairs and maintenance	767,941	620,361
Salaries and benefits (Notes 14, 15)	9,239,745	9,180,002
Store and office expenses	549,885	571,421
Travel	133,814	133,239
Utilities	<u>801,303</u>	<u>772,060</u>
	<u>14,467,838</u>	<u>14,221,571</u>
Income from operations	18,233,487	17,468,689
Other income (Note 3(c))	2,411,231	2,293,232
Loss on disposal of non current assets	<u>-</u>	<u>(55,446)</u>
Comprehensive income	20,644,718	19,706,475
Retained earnings, beginning of year	-	-
Distributions to the Province of Prince Edward Island (Note 15)	<u>20,644,718</u>	<u>19,706,475</u>
Retained earnings, end of year	<u>-</u>	<u>-</u>

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

**PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION**

Statement of Cash Flow
for the year ended March 31, 2016

	2016	2015
	\$	\$
Cash provided (used) by:		
Operating Activities		
Comprehensive income for the year	20,644,718	19,706,475
Loss on disposal of assets	-	55,446
Depreciation	<u>917,047</u>	<u>889,337</u>
	21,561,765	20,651,258
Change in working capital:		
Accounts receivable	110,997	380,276
Inventory	(405,025)	126,071
Prepaid expenses	(54,196)	106,516
Accounts payable and accrued liabilities	469,046	(371,197)
Deferred revenue	<u>28,179</u>	<u>6,777</u>
Cash provided by operating activities	<u>21,710,766</u>	<u>20,899,701</u>
Financing Activities		
Payments to the Province of Prince Edward Island	(19,973,953)	(19,607,687)
Payments of obligations under finance leases	(34,576)	(24,771)
Loan from the Province of Prince Edward Island	250,000	-
Debenture repayments	<u>(329,379)</u>	<u>(352,007)</u>
Cash used by financing activities	<u>(20,087,908)</u>	<u>(19,984,465)</u>
Investing Activities		
Proceeds from disposal of property, plant, and equipment	-	78,500
Acquisition of property, plant, and equipment	<u>(830,518)</u>	<u>(265,523)</u>
Cash used by investing activities	<u>(830,518)</u>	<u>(187,023)</u>
Change in cash	792,340	728,213
Cash, beginning of year	<u>2,514,863</u>	<u>1,786,650</u>
Cash, end of year	<u>3,307,203</u>	<u>2,514,863</u>
Supplementary disclosure		
Interest paid	<u>167,188</u>	<u>186,478</u>

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

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION

Notes to Financial Statements

March 31, 2016

1. General Information and Nature of Operations

The Prince Edward Island Liquor Control Commission (the Commission) is a wholly owned Crown corporation of the Province of Prince Edward Island responsible for managing the importation, sale, and distribution of beverage alcohol throughout Prince Edward Island. The head office is located at 3 Garfield Street in Charlottetown with outlets in various locations across the province.

2. Statement of Compliance and Approval

The financial statements of the Commission have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

These financial statements were authorized for issuance by the Board of Commissioners on June 15, 2016.

3. Summary of Significant Accounting Policies

a) International Financial Reporting Standards (IFRS)

The financial statements have been prepared using the accounting policies specified by IFRS, issued and in effect as of March 31, 2016. The significant accounting policies used in the preparation of these financial statements are summarized below.

These accounting policies have been used throughout all of the periods presented.

An overview of the standards, amendments, and interpretations on the conversion to IFRS, which are issued but not yet in effect, are presented in Note 3(g).

b) Presentation of the Financial Statements

The financial statements are presented in accordance with International Accounting Standard 1 (IAS 1), "*Presentation of Financial Statements*". The Commission has elected to present a single statement of comprehensive income. The financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is the functional currency of the Commission.

c) Revenue Recognition

Revenue is derived from the sale of goods and other income from the rendering of services. Reconciliation between gross receipts and revenue is shown in Note 13.

Revenue is measured by reference to the fair value of the consideration received or receivable by the Commission for the goods or services supplied, exclusive of sales tax, deposits, health tax, rebates, and trade discounts.

**PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION**

Notes to Financial Statements

March 31, 2016

3. Summary of Significant Accounting Policies (continued...)

c) Revenue Recognition (continued...)

Sales

Revenue from the sale of goods is recognized when the amount of revenue can be reliably measured, collection is probable, the costs incurred or to be incurred can be reliably measured, and when significant risks and rewards of ownership have been transferred to the buyer.

Significant risks and rewards are generally considered to be transferred to the buyer when the customer has taken legal title and possession of the goods and contractual obligations have been met.

Other Income

Other income includes permit, license, and marketing fees, and limited time offer promotions. Revenue from other income is recognized when the amount of revenue can be reliably measured, it is probable that economic benefits will flow to the Commission, the stage of completion can be reliably measured, and the costs incurred to date and the costs required to complete the transaction can be reliably measured.

Deferred Revenue

The Commission sells gift cards to its customers and initially records the amount to deferred revenue. Revenue is recognized as the gift cards are redeemed. If, in the opinion of management, the likelihood of the gift card being redeemed is remote then the revenue will be recognized immediately.

d) Expenses

Expenses are recorded on an accrual basis in the period in which the transaction or event that gave rise to the expense occurred.

e) Inventory

Inventory is valued at the lower of cost or net realizable value on a first-in, first-out basis. Inventory costs include the purchase price, duty and excise taxes, and standard freight rates for goods received.

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION

Notes to Financial Statements
March 31, 2016

3. Summary of Significant Accounting Policies (continued...)

f) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost less accumulated depreciation and any impairment losses. All capital asset additions over \$1,000 are capitalized. Capital assets are broken down into components when the components are significant and have differing useful lives than the rest of the asset. Depreciation is calculated on a straight line basis at the following rates:

Asset	Rate
Buildings	2.5%, 3.33%, 5%, 6.66%
Leased property	5%
Equipment	20%
Vehicles	20%
Leasehold improvements	5% and 10%
Financial information system	20% and 100%

In the year of acquisition, one half of the depreciation rate is applied.

g) International Financial Reporting Standards Not Yet In Effect

At the date of issuance of these statements certain new standards, amendments, and interpretations to existing standards have been published but are not yet in effect. The Commission has chosen not to adopt these early, as allowed by IFRS. Management anticipates that all relevant pronouncements will be adopted as the Commission's policy is to adopt in the first period following the effective date. A list of applicable pronouncements and their effective dates are as follows:

IFRS 9 *Financial Instruments* with an effective date of the first fiscal period beginning on or after January 1, 2018.

IAS 16 *Property, Plant, and Equipment* focuses on clarification of acceptable methods of depreciation with an effective date of the first fiscal period beginning on or after January 1, 2016.

IFRS 16 *Leases* requires Lessees to recognize assets and liabilities for all leases with a term greater than one year in length with an effective date of the first fiscal period beginning on or after January 1, 2019.

The estimated impact of the above pronouncements on the financial statements has not been determined at this time.

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION

Notes to Financial Statements
March 31, 2016

3. Summary of Significant Accounting Policies (continued...)

h) Finance Leases

A property lease is classified as a finance lease if it transfers substantially all of the risks and rewards of ownership to the lessee. The Commission currently leases three such properties that are required to be set up as a leased property asset and an obligation under finance lease liability based on IAS 17 *Leases*. The values of finance lease assets and liabilities are determined using the lower of the net present value of future lease payments and the estimated fair market value of property leased. The estimated fair market value is calculated using an income based approach which converts expected future income of the property to present market value using market established capitalization rates. The asset is then depreciated over the useful life of the asset and the liability over the life of the lease, which includes all renewal options. The Commission's depreciation policy has been disclosed in Note 3(f). The liability is amortized using the effective interest rate method. Lease payments made during the year are allocated to interest on finance leases and a reduction in the obligation under finance leases.

i) Capital Management

The Commission's objective when managing capital is to keep minimal capital on hand. This objective is achieved by accruing all comprehensive income to the Province of Prince Edward Island and transferring it on a continuous basis as excess capital becomes available.

j) Cash

Cash consists of cash on hand and amounts on deposit with financial institutions.

k) Accounts Receivable, Accounts Payable and Accrued Liabilities

Accounts receivable are recorded at cost less any provision when collection is in doubt. Accounts payable and accrued liabilities are recorded for all amounts due for work performed and goods or services received during the fiscal year.

4. Significant Accounting Judgements and Estimates

The preparation of financial statements requires management to make estimates, judgements, and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses. The actual results may materially differ from management's estimation. Items requiring the use of significant estimates include property, plant, and equipment carried at \$6,322,635 (2015 - \$6,409,164), accrued liabilities of \$482,448 (2015 - \$469,554), standard inventory freight rates of \$235,915 (2015 - \$223,764) and obligations under finance leases of \$1,338,820 (2015 - \$1,373,396).

**PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION**

Notes to Financial Statements
March 31, 2016

5. Accounts Receivable

	<u>2016</u> \$	<u>2015</u> \$
Trade receivables	590,529	702,115
Province of Prince Edward Island	<u>75,508</u>	<u>74,919</u>
	<u>666,037</u>	<u>777,034</u>

All amounts in the accounts receivable balance are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value.

The receivable due from the Province of Prince Edward Island relates to a wage reimbursement for one employee on secondment to the Commission. The carrying amount of the receivable is considered a reasonable approximation of fair value as this financial asset is expected to be paid within the year, such that the time value of money is not significant.

All of the Commission's trade and other receivables have been reviewed for indications of impairment. It is management's assessment that an allowance of \$62,105 (2015 - \$0) is required to fairly state the value of Trade Receivables. The trade receivables are shown net of the allowance.

6. Inventory

	<u>2016</u> \$	<u>2015</u> \$
Warehouses	4,463,940	4,110,822
Stores	<u>3,399,895</u>	<u>3,347,988</u>
	<u>7,863,835</u>	<u>7,458,810</u>

Inventories recognized in the statement of financial position consist of liquor products held for sale. In 2016, a total of \$40,517,288 of inventories was included in the statement of comprehensive income as a cost of goods sold (2015 - \$38,891,110).

There were no write-downs of inventories. No reversals of previous write-downs were recognized as a reduction of expense in 2016 or 2015. None of the inventories are pledged as security for liabilities.

**PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION**

Notes to Financial Statements
March 31, 2016

7. Property, Plant, and Equipment

The Commission's property, plant, and equipment is comprised of land, buildings, leased property, equipment, vehicles, leasehold improvements, and a financial information system. The carrying amounts are as follows for the current fiscal year:

	<u>Land</u>	<u>Buildings</u>	<u>Leased Property</u>	<u>Equipment</u>	<u>Vehicles</u>	<u>Leasehold Improvements</u>	<u>Financial Information System</u>	<u>2016 Total</u>
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
Balance, April 1, 2015	63,908	5,899,926	1,415,130	2,887,647	235,067	6,000,855	3,575,686	20,078,219
Additions	-	282,995	-	186,539	-	44,030	316,954	830,518
Balance, March 31, 2016	63,908	6,182,921	1,415,130	3,074,186	235,067	6,044,885	3,892,640	20,908,737
Accumulated Depreciation								
Balance, April 1, 2015	-	3,170,956	76,822	2,431,942	155,460	4,564,561	3,269,314	13,669,055
Depreciation	-	183,287	70,756	218,259	26,844	253,839	164,062	917,047
Balance, March 31, 2016	-	3,354,243	147,578	2,650,201	182,304	4,818,400	3,433,376	14,586,102
Net Book Value,								
March 31, 2016	63,908	2,828,678	1,267,552	423,985	52,763	1,226,485	459,264	6,322,635

The Commission has not pledged any of its property, plant, and equipment as security.

The carrying amounts are as follows for the previous fiscal year:

	<u>Land</u>	<u>Buildings</u>	<u>Leased Property</u>	<u>Equipment</u>	<u>Vehicles</u>	<u>Leasehold Improvements</u>	<u>Financial Information System</u>	<u>2015 Total</u>
	\$	\$	\$	\$	\$	\$	\$	\$
Cost								
Balance, April 1, 2014	69,859	6,178,283	1,064,693	2,870,960	216,717	5,956,860	3,488,338	19,845,710
Additions	-	49,753	350,437	50,140	34,287	43,995	87,348	615,960
Disposals	5,951	328,110	-	33,453	15,937	-	-	383,451
Balance, March 31, 2015	63,908	5,899,926	1,415,130	2,887,647	235,067	6,000,855	3,575,686	20,078,219
Accumulated Depreciation								
Balance, April 1, 2014	-	3,192,825	29,109	2,238,065	129,291	4,296,689	3,143,524	13,029,503
Depreciation	-	183,340	47,713	226,502	38,120	267,872	125,790	889,337
Disposals	-	205,209	-	32,625	11,951	-	-	249,785
Balance, March 31, 2015	-	3,170,956	76,822	2,431,942	155,460	4,564,561	3,269,314	13,669,055
Net Book Value,								
March 31, 2015	63,908	2,728,970	1,338,308	455,705	79,607	1,436,294	306,372	6,409,164

**PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION**

Notes to Financial Statements
March 31, 2016

8. Accounts Payable and Accrued Liabilities

	<u>2016</u> \$	<u>2015</u> \$
Trade payables and accruals	2,377,665	1,917,324
Province of Prince Edward Island	<u>229,239</u>	<u>220,534</u>
	<u>2,606,904</u>	<u>2,137,858</u>

9. Debentures Payable

	<u>2016</u> \$	<u>2015</u> \$
Point of Sale System, repayable in equal annual installments of \$52,747 including interest, 1.81%, matures February 5, 2021.	250,000	-
Granville, repayable in equal annual installments of \$38,493 including interest, 4.81%, matures February 28, 2016.	-	36,727
West Royalty, repayable in equal annual installments of \$64,156 including interest, 4.81%, matures August 30, 2016.	61,212	119,616
Souris, repayable in equal annual installments of \$101,660 including interest, 4.74%, matures March 30, 2017.	97,060	189,727
Charlottetown (Oak Tree), repayable in equal annual installments of \$16,409 including interest, 5.28%, matures June 27, 2017.	30,390	44,452
Charlottetown (Head Office and Warehouse), repayable in equal annual installments of \$31,393 including interest, 4.37%, matures January 20, 2020.	112,967	138,316
Stratford, repayable in equal annual installments of \$86,542 including interest, 4.20%, matures September 13, 2020.	383,117	450,726
O'Leary, repayable in equal annual installments of \$49,488 including interest, 4.07%, matures January 2, 2024.	<u>332,231</u>	<u>366,792</u>
Total	1,266,977	1,346,356
Less current portion	<u>354,173</u>	<u>329,379</u>
Long-term portion	<u>912,804</u>	<u>1,016,977</u>

All debentures are payable to the Province of Prince Edward Island.

PRINCE EDWARD ISLAND LIQUOR CONTROL COMMISSION

Notes to Financial Statements
March 31, 2016

9. Debentures Payable (continued...)

Principal repayments for the next five years and thereafter are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
	\$
2017	354,173
2018	203,135
2019	194,251
2020	201,213
2021	177,053
Thereafter	<u>137,152</u>
	<u>1,266,977</u>

10. Financial Instruments

Financial Assets

The Commission's financial assets include cash and accounts receivable. Cash has been classified as fair value through profit and loss and receivables have been classified as loans and receivables.

Cash is designated as held for trading and it is measured at fair value. Any gains or losses from this measurement are recognized through profit or loss.

Loans and receivables are financial assets with a fixed or determinate payment that are not quoted on an active market. These are measured at amortized cost using the effective interest rate method less a provision for any impairment. Discounting has been omitted as any effect on the carrying balance is not significant.

Financial Liabilities

The Commission's financial liabilities consist of accounts payable, accrued liabilities, amounts due to the Province of Prince Edward Island, obligations under finance leases, and debentures payable. These liabilities are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

Fair Value

Financial assets and liabilities are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods is based on classification as held-for-trading, loans and receivables, and other financial liabilities.

Financial assets and liabilities recorded in the statement of financial position at fair market value are categorized based on the fair value hierarchy of inputs. The Level 1 hierarchy is unadjusted quoted prices in active markets for identical assets and liabilities. This level of inputs is used to measure fair value of cash.

**PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION**

Notes to Financial Statements
March 31, 2016

10. Financial Instruments (continued...)

Fair Value (continued...)

Fair values for accounts receivable, accounts payable, accrued liabilities, and amounts due to the Province of Prince Edward Island approximate their carrying amounts due to their short-term nature.

The fair values of debentures payable and obligations under finance leases are not materially different from their carrying value as there has not been a significant fluctuation in interest rates.

Transaction Costs

Transaction costs for fair value through profit or loss instruments are recognized as profit or loss immediately while transaction costs for other financial instruments form part of the original value of the financial instrument.

De-recognition

De-recognition of a financial instrument occurs when the contractual rights to the cash flow generated by the asset expire, when the financial asset and substantially all of the risks and rewards are transferred to a third party, or when the obligation in the contract is discharged, cancelled, or expires.

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and liabilities:

	<u>2016</u> \$	<u>2015</u> \$
Financial Assets		
Financial assets at fair value through profit or loss, designated as held for trading		
Cash	3,307,203	2,514,863
Loans and receivables measured at amortized cost		
Accounts receivable (Note 5)	<u>666,037</u>	<u>777,034</u>
	<u>3,973,240</u>	<u>3,291,897</u>

**PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION**

Notes to Financial Statements

March 31, 2016

10. Financial Instruments (continued...)

	<u>2016</u> \$	<u>2015</u> \$
Financial Liabilities		
Other financial liabilities measured at amortized cost		
Non current		
Obligations under finance leases (Note 12)	1,301,517	1,338,820
Debentures payable (Note 9)	<u>912,804</u>	<u>1,016,977</u>
	<u>2,214,321</u>	<u>2,355,797</u>
Current		
Due to the Province of Prince Edward Island	12,950,202	12,279,437
Accounts payable and accrued liabilities (Note 8)	2,606,904	2,137,858
Current portion of obligations under finance leases (Note 12)	37,303	34,576
Current portion of debentures payable (Note 9)	<u>354,173</u>	<u>329,379</u>
	<u>15,948,582</u>	<u>14,781,250</u>
	<u>18,162,903</u>	<u>17,137,047</u>

A description of the Commission's risk management objectives and policies for financial instruments is included in Note 11.

11. Financial Risk Management

The Commission is exposed to various risks in relation to financial instruments. The Commission's financial assets and liabilities by category are summarized in Note 10. The main types of risks are market, credit, and liquidity risk.

Market Risk

Market risk consists of three types: currency, interest rate, and price risk. The Commission's market risk management focuses on the unpredictability of financial and economic markets and seeks to minimize potential effects on the Commission's financial performance. In common with many organizations that purchase in foreign currencies, the Commission may be exposed to a marginal degree of currency risk. Management has mitigated the exposure to this risk by limiting the number of purchase transactions originating in foreign currency.

The Commission's policy is to minimize interest rate cash flow risk exposures on long-term financing. Long-term borrowing is at fixed rates.

The Commission's financial instruments are not subject to significant price risk.

**PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION**

Notes to Financial Statements
March 31, 2016

11. Financial Risk Management (continued...)

Credit Risk

Credit risk is the risk the Commission will incur a loss because a customer fails to meet an obligation. The Commission is exposed to this risk for financial instruments classified as loans and receivables by granting credit to customers. The Commission's maximum exposure to credit risk is limited to the carrying amount of loans and receivables recognized at the reporting date as summarized below:

	<u>2016</u> \$	<u>2015</u> \$
Loans and receivables	<u>666,037</u>	<u>777,034</u>

The Commission has mitigated its exposure to this risk through the limited extension of credit and its contractual relationships with its business partners. The Commission's management considers that an allowance of \$62,105 (2015 - \$0) is required for the above loans and receivables to be fairly stated. The loans and receivables are shown net of the allowance.

Some of the unimpaired trade and other receivables are past due as at the reporting date. Trade and other receivables past due but unimpaired are as follows:

	<u>2016</u> \$	<u>2015</u> \$
Current	277,917	286,528
Less than 30 days	166,382	116,958
30 - 60 days	91,486	190,450
60 days - 1 year	54,583	183,098
More than 1 year	<u>75,669</u>	<u>-</u>
	<u>666,037</u>	<u>777,034</u>

With respect to trade and other receivables, the Commission is not exposed to any significant credit risk exposure to any single supplier or country of origin. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates, management considers the credit quality of trade receivables to be good.

**PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION**

Notes to Financial Statements

March 31, 2016

11. Financial Risk Management (continued...)

Liquidity Risk

Liquidity risk is the risk that the Commission would be unable to meet its obligations. The Commission manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash inflows and outflows due in day-to-day business. The data used for analyzing these cash flows is consistent with that used in the contractual maturity analysis below. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30 day outlook. Net cash requirements are compared to available borrowing facilities in order to determine any surplus or shortfall.

The Commission's objective is to maintain cash and marketable securities to meet its liquidity requirements for a minimum 30 day period. This objective was met for the reporting period. Funding for long-term liquidity needs are secured by adequate amounts of committed credit facilities. The Commission's existing cash resources, trade receivables, and cash generated from operations significantly exceed the current cash outflow requirements.

The Commission's contractual financial liabilities as at March 31, 2016, mature as follows:

	Current		Non Current	
	<u>Within 6 months</u>	<u>6 to 12 Months</u>	<u>1 to 5 Years</u>	<u>After 5 Years</u>
	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,606,904	-	-	-
Due to the Province	12,950,202	-	-	-
Obligations under finance leases	18,278	19,025	181,093	1,120,424
Debentures	146,468	207,705	775,652	137,152
	<u>15,721,852</u>	<u>226,730</u>	<u>956,745</u>	<u>1,257,576</u>

The Commission's contractual financial liabilities as at March 31, 2015, matured as follows:

	Current		Non Current	
	<u>Within 6 months</u>	<u>6 to 12 Months</u>	<u>1 to 5 Years</u>	<u>After 5 Years</u>
	\$	\$	\$	\$
Accounts payable and accrued liabilities	2,137,858	-	-	-
Due to the Province	12,279,437	-	-	-
Obligations under finance leases	16,942	17,634	167,833	1,170,987
Debentures	140,076	189,303	754,581	262,396
	<u>14,574,313</u>	<u>206,937</u>	<u>922,414</u>	<u>1,433,383</u>

**PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION**

Notes to Financial Statements
March 31, 2016

12. Leases and Commitments

The Commission leases fourteen retail outlets. Eleven of those outlets are classified as operating leases and three retail outlets are classified as finance leases.

Finance Leases

The following are the future minimum lease payments and present values for the finance leases as at March 31, 2016:

	<u>Within 1 Year</u> \$	<u>1 to 5 Years</u> \$	<u>After 5 Years</u> \$	<u>Total</u> \$
Minimum lease payments	143,502	574,008	1,817,305	2,534,815
Present value	132,911	440,626	765,283	1,338,820

The present value was calculated by discounting the minimum lease payments using the estimated interest rates implicit in the lease over the same period as the length of the lease including any renewal options. The estimated interest rates that are implicit in the leases range between 7.27 and 9.27 percent.

Operating Leases

The following are the Commission's future minimum lease payments for the operating leases:

	<u>Within 1 Year</u> \$	<u>1 to 5 Years</u> \$	<u>After 5 Years</u> \$	<u>Renewal Options</u> \$	<u>Total</u> \$
March 31, 2016	444,035	1,227,807	987,525	3,093,860	5,753,227
March 31, 2015	471,429	839,479	559,746	4,468,560	6,339,214

Total future minimum operating lease payments include lease renewal options which can be exercised by the Commission for periods above their current lease contract. Lease payments recognized as an expense during the period are \$676,720 (2015 - \$632,021). Dependent on the terms of the lease, other costs incurred by the Commission associated with property leases generally include insurance, taxes, repairs and maintenance, and leasehold improvements.

Commitments

The Commission has entered into contracts with various suppliers for hardware maintenance, software support services, internet access, marketing and security services. The total of these contracts is \$478,365 and they expire within two years.

**PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION**

Notes to Financial Statements
March 31, 2016

13. Sales

	<u>2016</u> \$	<u>2015</u> \$
Gross receipts	105,342,461	101,441,045
Less taxes collected and remitted		
Provincial Health Tax	18,723,751	17,977,790
Harmonized Sales Tax	<u>13,400,097</u>	<u>12,881,885</u>
Sales	<u>73,218,613</u>	<u>70,581,370</u>

14. Employee Benefits

a) Pension Benefits

Permanent employees of the Commission participate in the Province of Prince Edward Island Civil Service Superannuation Pension Plan (the Plan) which is a multi-employer contributory defined benefit pension plan. The Plan provides a pension on retirement based on two percent of the average salary for the highest three years times the number of years of pensionable service for service to December 31, 2013, and two percent of the career average salary indexed with cost of living adjustments for service after 2013. Indexing is subject to the funded level of the plan after December 31, 2016. The Plan is administered by the Province of Prince Edward Island. The Commission's annual portion of contributions to the Plan of \$421,690 (2015 - \$435,098) was paid by the province and is not reflected in these financial statements. Any unfunded liability of the Plan is the responsibility of the province and therefore no liability has been recognized in these financial statements. For additional information on the Plan, see the province's consolidated financial statements.

b) Retiring Allowance

The Commission provides a retirement allowance to its permanent employees. The amount paid to eligible employees at retirement is based on the number of years of service and the rate of pay in effect at the retirement date. The benefit costs and liabilities related to the allowance are assumed by the province and are not included in these financial statements.

c) Sick Leave

Classified employees are credited 1.25 (1.5 - excluded employees) days per month for use as paid absences in the year, due to illness or injury. Under existing employment agreements, employees are allowed to accumulate unused sick day credits each year up to the allowable maximum. Accumulated credits may be used in future years to the extent the employee's illness or injury exceeds the current year's allocation. The use of accumulated sick days for sick leave compensation ceases on termination of employment and there is no obligation to settle these amounts with cash payments. A liability has not been calculated and no accrual has been recorded in these financial statements. The related liability is recorded by the province. Salary expense is included in these financial statements.

**PRINCE EDWARD ISLAND
LIQUOR CONTROL COMMISSION**

Notes to Financial Statements
March 31, 2016

15. Related Party Transactions

These financial statements include the results of normal operating transactions with various provincial departments, Crown corporations, and agencies with which the Commission is related. Operating transactions with related parties, such as insurance and property taxes of \$205,975 (2015 - \$202,020) and interest on debentures of \$58,262 (2015 - \$70,633), are recorded at rates as determined by the Province of Prince Edward Island.

Key management received \$534,996 (2015 - \$561,397) during the year for salaries and benefits. Long-term benefits such as pensions and senior management compensation plan are the responsibility of the province and are not included in these financial statements.

The Commission's employee salaries and benefits are paid by the province and subsequently reimbursed by the Commission.

Comprehensive income earned during the period is payable to the province. The outstanding amount due to the province at year-end is \$12,950,202 (2015 - \$12,279,437).

16. Other Operating Expenses

Other operating expenses include debit and credit card fees, consulting, legal, vehicle, and security expenses. Included as an expense for the current year is a provision for bad debt of \$54,496 (2015 - \$0).

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