

Prince Edward Island  
Lotteries Commission  
Annual Report  
2014 - 2015



The Honourable H. Frank Lewis  
Lieutenant Governor of Prince Edward Island  
PO Box 846

Charlottetown, PE C1A 7L9

May it Please Your Honour:

In accordance with the *Lotteries Commission Act* [R.S.P.E.I.  
1988, Cap. L-17] , I am pleased to present to you the Annual  
Report of the Prince Edward Island Lotteries Commission for  
the fiscal year ending March 31, 2015.

Respectfully submitted,

  
Allen F. Roach  
Minister of Finance



## Introduction

The Prince Edward Island Lotteries Commission was established in 1976 under the *Lotteries Commission Act*. The Commission's mandate is to develop, organize, undertake, conduct and manage lottery schemes on behalf of the Province. The Commission has, in turn, delegated these duties to its agent, the Atlantic Lottery Corporation.

The Atlantic Lottery Corporation was incorporated in 1976 under the *Canada Business Corporations Act*. The Corporation is jointly owned by the four Atlantic Provinces. Each Province has lottery and gaming legislation in place, with supporting regulations, which must be complied with by the Atlantic Lottery Corporation in its operation of lottery games in each jurisdiction.

## Introduction

En 1976, la Commission des loteries de l'Île-du-Prince-Édouard a été établie en vertu de la *Lotteries Commission Act* (Loi sur la Commission des loteries). Le mandat de la Commission est de développer, d'organiser, d'exploiter, de diriger et de gérer le système de loterie pour le compte de la province. À son tour, la Commission a délégué ces tâches à son agent, la Société des loteries de l'Atlantique.

En 1976, la Société des loteries de l'Atlantique a été constituée en société en vertu de la Loi canadienne sur les sociétés par actions. Les quatre provinces de l'Atlantique en sont copropriétaires. Chaque province possède des dispositions législatives portant sur les jeux de hasard et d'argent, y compris des règlements qui s'y appliquent. La Société des loteries de l'Atlantique se doit d'observer ces dispositions en ce qui concerne l'exploitation des jeux de loterie dans chaque province.

## Officers and Board Members

On February 23, 2015 (EC2015-91, EC2015-93) the Honourable H. Wade MacLauchlan was appointed Chair of the Commission and Minister of Finance and Energy, replacing Wesley J. Sheridan. On May 21, 2015 (EC2015-320 and EC2015-322) the Honourable Allen F. Roach was appointed Chair of the Commission and Minister of Finance. David Arsenault served as Vice-Chair and Dan Campbell served as Secretary/Treasurer replacing Doug Clow (EC2014-428, July 8, 2014).

Mr. Dan Campbell and Ms. Patricia A. Mella were Prince Edward Island's representatives on the Board of Directors of the Atlantic Lottery Corporation (ALC).

## Governance and Legislative Mandate

The Commission is governed by Bylaws which were approved by the Lieutenant Governor in Council on August 26, 1976, via EC794-76.

Gaming in Canada is governed by the Criminal Code of Canada and generally gambling is unlawful unless conducted and managed by a Province or a body licensed by a provincial government. The "Gaming Centers Control Regulations" established under the *Lotteries Commission Act* provide the legislative framework for the conduct and management of gaming activities on Prince Edward Island.

On behalf of the Province and the Provinces of Nova Scotia, Newfoundland and Labrador and New Brunswick, ALC is responsible for operating lotteries in each of the four Atlantic provinces. ALC was incorporated under the *Canada Business Corporations Act* on September 3, 1976. The Commission is one of four shareholders of ALC.

The Commission has entered into the following agreements:

1. an agreement with the Provinces of Nova Scotia, New Brunswick and Newfoundland to establish and operate a regional lottery (EC796-76 of August 26, 1976);

2. an agreement for the establishment of the Atlantic Lottery Corporation (EC797-76 of August 26, 1976); and
3. an agreement to amend and restate the Unanimous Shareholders' Agreement governing the conduct and management of lottery schemes in the Atlantic Provinces (EC2007-380 of July 4, 2000).

The Commission is also a shareholder of the Interprovincial Lottery Corporation

## Lines of Business Activity - ALC

ALC operates Red Shores at Charlottetown and Summerside (leased from the City of Summerside), which includes harness racing, dining and gaming. ALC administers siteholder agreements with certain entertainment establishments for the operation of video lottery devices. Traditional lottery ticket sales through licensed retailers includes 6/49, LottoMax and Atlantic 49. The lines of business for the three main revenue streams for the year ended March 31, 2015 are as follows:

<b>Table 1</b>	<b>Sales (\$)</b>	<b>% of Total</b>
Retail Lottery Ticket and Internet Sales	32,503,000	66.8%
Less Ticket Prizes	(18,444,000)	(37.9%)
Net Video Lottery Receipts	17,401,000	35.7%
Red Shores	<u>17,216,000</u>	<u>35.4%</u>
<b>Total</b>	<b>48,676,000</b>	<b>100.0%</b>

Table 2 provides comparative information for the net profits distributed by ALC, in summary:

- lottery ticket sales are down by \$1.5 million or 4.5% from the prior year;
- total expenses were lower by \$631,000 or 2.4% from the prior year;
- Red Shores had increased sales and lower expenses resulting in a net profit of \$683,000; and
- overall net profit is unchanged from the prior year at \$15.3 million.

From the funds which ALC generated, \$2,170,000 was used in 2015 and \$2,100,000 in 2014 to assist the PEI Harness Racing Industry Association. The Commission also provided financial assistance to support the harness racing industry in the form of grants related to sales taxes due from pari-mutual wagering in the amount of \$626,169 (2014 - \$655,726). The balance of these funds are placed in the Province's general revenues, where they are used to fund the many services Islanders require and expect from their Provincial Government.

## **Financial Report Statements**

The Financial Statements of the Prince Edward Island Lotteries Commission, as audited by the Auditor General's Office, follow as part of this report. The Commission's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS).

The Commission's investment in ALC is recorded in the statement of financial position using the equity method which requires recognizing its share of income and losses less distributions. For the year ended March 31, 2015, the Commission's portion of undistributed income was \$67,739 (\$3,570,203 in 2014). There has been an increase to the Shareholders Deficiency during the past year primarily due to an impairment loss of \$3,805,397 (\$535,096 in 2014) recorded by ALC relating to an investment in Geonomics Global Games Limited. No income has been earned to date on this investment and there has been a short history of poor results, therefore future return is presumed not probable. The Shareholder Deficiency has a balance of \$9,979,593 at March 31, 2015 (\$8,140,436 at March 31, 2014). The Shareholder Deficiency is being funded by monthly reductions of \$158,208 from the profit distribution, which commenced September 2013 and will continue to March 2019.

**Table 2**  
**Atlantic Lottery Corporation**  
**Prince Edward Island Profit by Program**  
 (000's)

	Total	
	2015	2014
<b>Revenues</b>	\$	\$
Gross Lottery Ticket Sales	32,503	34,048
Net Video Lottery Receipts	17,401	17,491
Red Shores	17,216	17,049
Prizes on Ticket Sales	<u>(18,444)</u>	<u>(19,447)</u>
<b>Net Revenues</b>	<b><u>48,676</u></b>	<b><u>49,141</u></b>
<b>Direct Expenses</b>		
<u>Commissions</u>		
Tickets	2,338	2,429
Video Lottery	<u>3,086</u>	<u>3,106</u>
Total Commissions	5,424	5,535
<u>Other</u>		
Tickets	610	563
Video Lottery	188	172
Red Shores	<u>1,942</u>	<u>1,676</u>
<b>Total Direct Expenses</b>	<b><u>8,164</u></b>	<b><u>7,946</u></b>
<b>Gross Profit</b>	<b><u>40,512</u></b>	<b><u>41,195</u></b>
<b>Expenses</b>		
<u>Operating</u>		
Tickets	6,582	6,722
Video Lottery	4,076	3,801
Red Shores	<u>13,880</u>	<u>14,650</u>
Total Operating	24,538	25,173
<b>Red Shores - Interest</b>	<b><u>711</u></b>	<b><u>707</u></b>
<b>Total Expenses</b>	<b><u>25,249</u></b>	<b><u>25,880</u></b>
<b>Net Profit</b>	<b><u>\$15,263</u></b>	<b><u>\$15,315</u></b>
<b>Profit Distribution</b>		
Tickets	4,529	4,887
Video Lottery	10,051	10,412
Red Shores	<u>683</u>	<u>16</u>
	<b><u>\$15,263</u></b>	<b><u>\$15,315</u></b>

Appendix

Audited Financial Statements

2014 - 2015



**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

Financial Statements  
March 31, 2015



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 Members of the Prince Edward Island Lotteries Commission

I have audited the accompanying financial statements of the **Prince Edward Island Lotteries Commission** which comprise the statement of financial position as at March 31, 2015, and the statements of comprehensive income, changes in shareholder deficiency, and 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, 2015, and the results of its operations and changes in 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  
July 24, 2015


**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**


Statement of Financial Position  
March 31, 2015

	2015	2014
	\$	\$
<b>Assets</b>		
<b>Current Assets</b>		
Accounts receivable (Note 10)		
Province of Prince Edward Island	-	187,032
Atlantic Lottery Corporation Inc.	209,877	-
	<u>209,877</u>	<u>187,032</u>
<b>Non Current Assets</b>		
Investment in Interprovincial Lottery Corporation	<u>1</u>	<u>1</u>
<b>Total Assets</b>	<u>209,878</u>	<u>187,033</u>
<b>Liabilities and Shareholder Deficiency</b>		
<b>Current Liabilities</b>		
Accounts payable		
Province of Prince Edward Island	209,877	-
Atlantic Lottery Corporation Inc.	-	87,032
City of Charlottetown	<u>-</u>	<u>100,000</u>
	<u>209,877</u>	<u>187,032</u>
<b>Non Current Liabilities</b>		
Investment in Atlantic Lottery Corporation Inc. (Note 6)	<u>9,979,594</u>	<u>8,140,437</u>
	10,189,471	8,327,469
<b>Shareholder Deficiency</b>		
Contributed surplus (Note 3)	101	101
Accumulated other comprehensive income	1,283,923	791,404
Deficit	<u>(11,263,617)</u>	<u>(8,931,941)</u>
	<u>(9,979,593)</u>	<u>(8,140,436)</u>
<b>Total Liabilities and Shareholder Deficiency</b>	<u>209,878</u>	<u>187,033</u>

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

Approved on behalf of the Prince Edward Island Lotteries Commission

  
Chairman

  
Member

**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

Statement of Comprehensive Income  
for the year ended March 31, 2015

	2015	2014
	\$	\$
<b>Revenues</b>		
Distributions of Atlantic Lottery Corporation Inc. net profit (Note 15)		
Lottery ticket sales	4,529,125	4,884,054
Video lottery sales	10,050,861	10,411,707
Entertainment centres net profit (loss)		
Red Shores Racetrack & Casino at Charlottetown		
Driving Park	914,350	260,009
Red Shores at Summerside Raceway	(231,120)	(240,611)
	<u>15,263,216</u>	<u>15,315,159</u>
<b>Expenses</b>		
Grants to the harness racing industry (Note 8)	2,992,747	3,096,259
Grants in support of Bingo (Note 9)	-	33,267
Grant to the City of Charlottetown (Note 11)	300,000	400,000
Grant to PEI 2014 Inc.	-	100,000
Responsible Gaming Strategy (Note 12)	227,950	244,884
Professional services	1,112	-
Impairment loss (Note 14)	3,805,397	535,096
Other	17,350	-
	<u>7,344,556</u>	<u>4,409,506</u>
<b>Net income</b>	7,918,660	10,905,653
<b>Other comprehensive income (loss)</b>		
Commission share of other comprehensive income of Atlantic Lottery Corporation Inc. (Note 6)	<u>67,739</u>	<u>3,570,203</u>
<b>Comprehensive income</b>	<u>7,986,399</u>	<u>14,475,856</u>

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

**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

Statement of Changes in Shareholder Deficiency  
for the year ended March 31, 2015

	<b>Contributed Surplus</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Deficit</b>	<b>2015 Shareholder Deficiency</b>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Balance, beginning of year</b>	101	791,404	(8,931,941)	(8,140,436)
Net income	-	-	7,918,660	7,918,660
Other comprehensive income (loss)	-	492,519	(424,780)	67,739
Comprehensive income	-	492,519	7,493,880	7,986,399
Distributions to the Province of Prince Edward Island	-	-	(9,825,556)	(9,825,556)
<b>Balance, end of year</b>	<u>101</u>	<u>1,283,923</u>	<u>(11,263,617)</u>	<u>(9,979,593)</u>

	<b>Contributed Surplus</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Deficit</b>	<b>2014 Shareholder Deficiency</b>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Balance, beginning of year</b>	101	(1,329,000)	(10,954,100)	(12,282,999)
Net income	-	-	10,905,653	10,905,653
Other comprehensive income (loss)	-	2,120,404	1,449,799	3,570,203
Comprehensive income	-	2,120,404	12,355,452	14,475,856
Distributions to the Province of Prince Edward Island	-	-	(10,333,293)	(10,333,293)
<b>Balance, end of year</b>	<u>101</u>	<u>791,404</u>	<u>(8,931,941)</u>	<u>(8,140,436)</u>

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

**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

Statement of Cash Flow  
March 31, 2015

	2015	2014
	\$	\$
<b>Cash provided (used) by:</b>		
<b>Operating Activities</b>		
Cash received from Atlantic Lottery Corporation Inc.	14,966,307	15,593,051
Cash paid to the harness racing industry	(2,992,747)	(3,085,523)
Cash paid in support of bingo	-	(33,267)
Cash paid to the City of Charlottetown	(400,000)	(400,000)
Cash paid to PEI 2014 Inc.	-	(100,000)
Cash paid for the Responsible Gaming Strategy	(227,950)	(244,884)
Cash paid for professional services	(1,112)	-
Cash paid for other services	(17,350)	-
<b>Cash provided by operating activities</b>	<u>11,327,148</u>	<u>11,729,377</u>
<b>Financing Activities</b>		
Distributions to the Province of Prince Edward Island	(9,428,647)	(10,621,921)
Deficit Repayment (Note 6)	<u>(1,898,501)</u>	<u>(1,107,456)</u>
<b>Cash used by financing activities</b>	<u>(11,327,148)</u>	<u>(11,729,377)</u>
<b>Change in cash</b>	-	-
Cash, beginning of year	-	-
<b>Cash, end of year</b>	<u>-</u>	<u>-</u>

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

# **PRINCE EDWARD ISLAND LOTTERIES COMMISSION**

Notes to Financial Statements

March 31, 2015

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## **1. Nature of Operations**

The Government of Prince Edward Island operates no lotteries but the province, through its ownership of the Prince Edward Island Lotteries Commission (the Commission), is a shareholder in the Atlantic Lottery Corporation Inc. (ALC) and the Interprovincial Lottery Corporation (ILC). ALC is jointly owned by the four Atlantic Provinces or their lottery agency with each having 25 percent ownership. ALC is responsible to develop, organize, undertake, conduct, and manage lotteries in Atlantic Canada. ALC also markets, and handles regionally, the products of the ILC, which is jointly owned by the ten Canadian provinces. Net profits (losses) of ALC and ILC are distributed to the shareholders.

An agreement between the Commission and ALC provides for ALC to develop, organize, conduct, manage, and operate gaming entertainment centres as agent for and on behalf of the Commission. In the event this agreement is terminated, all assets held by ALC on behalf of the Commission shall be transferred to the Commission and any related loans or other liabilities shall be assumed by and become obligations of the Commission.

ALC's net profit is distributed to each of the four Atlantic Provinces or their lottery agency in accordance with the Amended and Restated Unanimous Shareholders' Agreement. Distributions during the year are based on the estimated net profit for each province, less any distributions made by ALC on behalf of the provinces, with an adjustment subsequent to year-end to reflect the actual net profit for the year.

The Commission is owned by the Province of Prince Edward Island and is therefore a non-taxable entity under the provisions of the federal *Income Tax Act*. The head office of the Commission is located at:

Office of the Minister of Finance  
Second Floor South, Shaw Building  
95 Rochford Street, P.O. Box 2000  
Charlottetown, PE, C1A 7N8

The financial statements were authorized for issue in accordance with a resolution of the Members on July 15, 2015.

## **2. Summary of Significant Accounting Policies**

### **Basis of Presentation and Statement of Compliance**

The financial statements of the Commission have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements of the Prince Edward Island Lotteries Commission comply, in all material respects, with IFRS as issued by the IASB in effect as at March 31, 2015.

# **PRINCE EDWARD ISLAND LOTTERIES COMMISSION**

Notes to Financial Statements  
March 31, 2015

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## **2. Summary of Significant Accounting Policies (continued...)**

### **Basis of Measurement**

The financial statements of the Commission have been prepared on a historical cost basis. The Commission's functional currency is the Canadian dollar, which is the currency of the primary economic environment in which the Commission operates, which is also the presentation currency of the financial statements.

### **a) Revenues and Expenses**

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

### **b) Financial Risk Management Objectives and Policies**

The Commission's risk management policies are part of the overall management of the entity's operations. Management's direct involvement in day-to-day operations identifies risks and variations from expectations leading to changes in risk management activities, requirements, and actions. As part of the overall management of the entity's operations, management considers avoidance of undue concentrations of risk in managing the Commission's exposure.

### **c) Use of Estimates and Measurement Uncertainty**

The preparation of financial statements in conformity with IFRS requires the use of judgments, assumptions, and estimates as at the date of the financial statements that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities, and the reported amounts of revenues and expenses during the reporting periods presented.

Measurement uncertainty exists when there is a variance between the recognized amount and another reasonable amount. Some accounting measurements require management's best estimate, based on assumptions as at the financial statement date that reflects the most probable set of economic conditions and planned courses of action.

Items requiring the use of significant estimates include provisions for doubtful accounts of \$102,042 (2014 - \$102,042), impairment loss of \$3,805,397 (2014 - \$535,096), and amounts recorded in Atlantic Lottery Corporation Inc. (ALC) financial statements such as the useful lives of tangible and intangible assets, impairment of non financial assets, accrued liabilities, employee future benefits, development costs, fair value of financial instruments, liabilities for unclaimed prizes, and Player Loyalty Program which all impact the net distribution and allocation of undistributed income or loss to the Commission. Actual results could differ from the estimates made by management in these financial statements, and these differences, which may be material, could require adjustments in subsequent reporting periods.



# PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements  
March 31, 2015

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## 2. Summary of Significant Accounting Policies (continued...)

### d) Investments

Investment in the Atlantic Lottery Corporation Inc. (ALC) is an equity investment accounted for using the equity method. Under the equity method, the investment is initially recognized at cost and subsequently the carrying amount is increased or decreased to recognize the Commission's share of income or losses from the investment and reduced by distributions received. Income and losses from the investment are recognized in the statement of comprehensive income.

Investment in the Interprovincial Lottery Corporation (ILC) is an equity investment with no quoted price on an active market whose fair value cannot be reliably measured. Investment in ILC is therefore carried at cost.

### e) Future Accounting Pronouncements

At the date of signing 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 early adopt as allowed by International Financial Reporting Standards (IFRS). Management anticipates that all relevant pronouncements shall be adopted as the Commission's policy in the first period following their effective date. A list of applicable pronouncements and their effective dates are as follows:

*IFRS 9 Financial Instruments: Recognition and Measurement* permits two classifications for financial assets - fair value through profit or loss and amortized cost. *IFRS 9* has an effective date of the first fiscal period beginning on or after January 1, 2015.

*IFRS 15 Revenue from Contracts with Customers* provides a more structured approach to measuring and recognizing revenues arising from contracts with customers. *IFRS 15* has an effective date of the first fiscal period beginning on or after January 1, 2017.

*IAS 27 Separate Financial Statements* includes the entities which use the equity method to account for investments in associates. Additional guidance in regards to financial statement preparation is provided for such entities. *IAS 27* has an effective date of the first fiscal period beginning on or after January 1, 2016.

Management is currently reviewing these changes.

## 3. Contributed Surplus

Contributed surplus represents amounts paid by the Province of Prince Edward Island on behalf of the Commission to the Atlantic Lottery Corporation Inc. and the Interprovincial Lottery Corporation in exchange for share capital.

# PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements  
March 31, 2015

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## 4. Financial Instruments

Financial instruments reported on the Commission's statement of financial position are classified as follows:

Accounts receivable	Loans and receivables
Accounts payable	Other financial liabilities

All financial instruments are initially recognized at fair market value. Subsequent measurement of financial instruments is dependent on their classification.

Loans and receivables are financial assets with fixed or determinate payments that are not quoted on an active market. They are measured at amortized cost using the effective interest rate method less a provision for any impairment. Due to their short-term nature, they are considered to be carried at amounts which approximate their fair value.

Other financial liabilities are financial liabilities that are measured at amortized cost using the effective interest rate method. Due to their short-term nature, they are considered to be carried at amounts which approximate their fair value.

The Commission has adopted a policy of recognizing all transaction costs in comprehensive income as incurred.

## 5. Financial Risk Management

### Credit risk management

The Commission is exposed to credit risk through its trade receivables. The Commission mitigates this risk through a regular monitoring process. Credit risk is also mitigated due to the fact that most of the non impaired receivables are due from the associate company Atlantic Lottery Corporation Inc. Allowance for doubtful accounts is reviewed at each financial statement date.

The Commission has an impaired receivable totalling \$102,042 (2014 - \$102,042) as described in Note 10. The Commission has reviewed this receivable for collectability and assessed that based on the lack of collectability to date, and the financial situation of the parties owing, that no funds will be collected.

### Liquidity risk management

Liquidity risk is the risk that the Commission will not be able to meet all its cash outflow obligations as they come due. The Commission mitigates this risk by monitoring cash activities and expected outflows. The Commission does not have material liabilities that can be called unexpectedly at the demand of a lender or claimant. The Commission has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of operations. All current liabilities are fully funded by the current assets of the Commission.

**PRINCE EDWARD ISLAND  
LOTTERIES COMMISSION**

Notes to Financial Statements

March 31, 2015

**5. Financial Risk Management (continued...)**

There have been no significant changes from the previous year in the exposure to risk or policies, procedures, and methods used to measure the risk.

**6. Investment in Atlantic Lottery Corporation Inc. (ALC)**

The Commission uses the equity method to account for its investment in ALC which involves recognizing its share of income and losses less distributions. ALC reported the following results in its financial statements:

	<u>2015</u> \$ (in thousands)	<u>2014</u> \$ (in thousands)
Current assets	69,866	61,440
Non current assets	159,931	189,498
Current liabilities	(175,329)	(158,223)
Non current liabilities	<u>(90,658)</u>	<u>(126,619)</u>
Shareholder deficiency	<u>(36,190)</u>	<u>(33,904)</u>
Commission portion of shareholder deficiency	<u>(9,980)</u>	<u>(8,140)</u>
	<u>2015</u> \$ (in thousands)	<u>2014</u> \$ (in thousands)
Revenues (net)	695,021	681,033
Expenses	(286,595)	(284,360)
Other losses	<u>(40,210)</u>	<u>(28,236)</u>
Net income	368,216	368,437
Other comprehensive income (loss)	<u>(7,730)</u>	<u>23,145</u>
Comprehensive income	360,486	391,582
Income allocated to shareholders	(376,867)	(368,287)
Dividends paid	<u>-</u>	<u>(150)</u>
Undistributed income (loss) to shareholders	<u>(16,381)</u>	<u>23,145</u>
Commission portion of undistributed income (Note 14)	<u>68</u>	<u>3,570</u>

## **PRINCE EDWARD ISLAND LOTTERIES COMMISSION**

Notes to Financial Statements  
March 31, 2015

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### **6. Investment in Atlantic Lottery Corporation Inc. (ALC) (continued...)**

The shareholder deficiency on ALC's financial statements is a result of various adjustments related to the conversion of its accounting framework to International Financial Reporting Standards and the variation in the employee future benefit liability. ALC has recommended and received board approval that shareholders fund their portion of the deficit as a deduction of monthly profit payments which would reverse the deficit on the statement of financial position. An amount of \$158,208 has been withheld from the monthly profit distribution to the Commission to fund the deficit. This arrangement commenced effective September 15, 2013, and will continue until March 31, 2019. For the March 31, 2015, year-end, the total amount withheld was \$1,898,501.

### **7. Gaming Entertainment Centres**

On behalf of the province, the Atlantic Lottery Corporation Inc. (ALC) constructed and operates Red Shores Racetrack & Casino at Charlottetown Driving Park. ALC's consolidated financial statements include capital assets related to the Charlottetown gaming entertainment centre having a net book value of \$16,166,595 as at March 31, 2015, (2014 - \$16,726,208). Included in this are assets of \$750,000 relating to the construction of a new stabling barn and parking lot at Red Shores Racetrack & Casino at Charlottetown Driving Park. ALC is carrying a loan of \$500,000 related to the new barn, with interest on the loan at prime plus 1 percent.

ALC commenced operating Red Shores at Summerside Raceway in August 2009, occupying facilities which are being leased from the City of Summerside. ALC's consolidated financial statements include capital assets related to the Summerside gaming entertainment centre having a net book value of \$1,908,341 as at March 31, 2015, (2014 - \$2,259,321). This amount includes leasehold improvements of \$1,059,839 (2014 - \$1,180,084), but it does not include any amount for future lease payments. ALC's consolidated financial statements report the lease as an operating lease having future minimum lease payments of \$335,000 for each of the next five years and minimum future aggregate lease payments to the end of the 15 year lease term totalling \$3,154,583.

ALC is carrying a loan related to the Charlottetown and Summerside gaming entertainment centres in the amount of \$9,687,000 (2014 - \$10,539,000) maturing in August 2016, repayable in monthly installments of \$71,000 plus interest at variable interest rates and hedged by a fixed interest rate swap bearing interest at 5.13 percent and a fixed interest rate swap bearing interest at 2.88 percent, beginning August 2016 and maturing August 2026.

ALC is recovering its debt amortization costs through depreciation charges which, along with the loan interest and Summerside centre lease charges, are included in the cost of operating the gaming entertainment centres. ALC's profit distributions to the Commission are adjusted to reflect any profit or loss resulting from its operation of the gaming entertainment centres and the new stabling barn.

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## 8. Grants to the Harness Racing Industry

Grants to the harness racing industry provided through the Commission consist of the following:

	<u>2015</u> \$	<u>2014</u> \$
Grant to PEI Harness Racing Industry Association	2,170,000	2,100,000
Grant to Prince County Horsemen's Club	80,000	77,500
Grant to Maritime Provinces Harness Racing Commission	116,578	112,178
Grants for sales tax due from pari-mutuel wagering	626,169	655,726
Grant to PEI Standardbred Horse Owners Association	-	150,000
Other	-	855
	<u>2,992,747</u>	<u>3,096,259</u>

## 9. Grants in Support of Bingo

Grants in support of bingo provided through the Commission consist of the following:

	<u>2015</u> \$	<u>2014</u> \$
Bingo licensing fees to Department of Environment, Labour and Justice	-	33,267

## 10. Accounts Receivable

The Commission received an assignment of judgment from Harness Racing PEI Inc. in the amount of \$102,042 during a previous fiscal period. A provision for the full amount has been recorded.

## 11. Grant to the City of Charlottetown

The grant to the City of Charlottetown is pursuant to an arrangement between the City and the Province of Prince Edward Island, whereby the City will receive \$400,000 per annum for ten years beginning with the year ended December 31, 2005. This amount is subject to adjustment when the Charlottetown gaming entertainment centre operates less than 300 days in a given year. The arrangement ended in December 2014 and was not renewed.

## 12. Responsible Gaming Strategy

Implementation of the Province's Responsible Gaming Strategy began in 2010. The objective of the strategy is to prevent and reduce problems associated with gaming, while maximizing its potential social and economic aspects for Islanders.

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**12. Responsible Gaming Strategy (continued...)**

The following is a summary of the Responsible Gaming Strategy costs incurred by the Commission:

	<u>2015</u>	<u>2014</u>
	\$	\$
Gaming strategy project officer service contract	3,900	500
Activities carried out by Health PEI	223,996	243,656
Other	54	728
	<u>227,950</u>	<u>244,884</u>

**13. Commitments**

**a) Responsible Gaming Strategy**

The Commission has committed a maximum of \$300,000 on an annual basis to support the implementation of the Responsible Gaming Strategy.

**b) Deficit Repayment**

The Commission has entered into an arrangement with ALC in which an amount of \$158,208 will be withheld monthly from profit distribution in order to fund their portion of ALC's deficit. The total amount remaining to be withheld between April 1, 2015 and March 31, 2019 is \$7,593,984.

**14. Investment in Geonomics Global Games Limited (Formerly Roboreus Limited)**

During the 2011-12 fiscal year the Atlantic Lottery Corporation Inc. (ALC) invested \$4.3 million on behalf of the province for an equity interest in Geonomics Global Games Limited (formerly Roboreus Limited, a privately owned UK based internet gaming vendor). The investment was made on behalf of the Prince Edward Island Lotteries Commission and is held in ALC's subsidiary company 7865813 Canada Inc. The Commission is responsible for the loan relating to the investment and for all costs related to the investment. Costs are deducted by ALC from the net distribution paid to the Commission. Costs deducted from the Commission's net distribution for the year ending March 31, 2015, were \$79,508 (2014 - \$81,636). No income has been earned to date on this investment. Revenues and expenses related to this investment accrue to the Commission. The investment is classified as available for sale and is carried by 7865813 Canada Inc. at cost less impairment as there is no quoted price in an active market.

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## **14. Investment in Geonomics Global Games Limited (Formerly Roboreus Limited) (continued...)**

As a requirement of IAS36, an impairment test of the investment was completed by ALC. Given the lack of an active market by which to determine a valuation, impairment has been based on, among other factors, historical results. The investment has had a short history of poor previous results and therefore any future return is presumed to not be probable of realization for accounting purposes. As a result, the Commission has recognized a further impairment of the investment by an additional \$3.8 million (2014 - \$535,096) thus increasing the Commission's investment liability in ALC by the same amount. The investment is fully provided for at March 31, 2015 and is included in the Commission portion of undistributed income.

## **15. Related Party Transactions**

The Commission is owned by the Province of Prince Edward Island. Any excess revenues over expenses of the Commission are distributed to the province as shown on the statement of changes in shareholder deficiency. Other transactions with the province, its Crown corporations, and agencies are recorded at rates as determined by the province.

There are resources provided by the Province of Prince Edward Island such as office facilities, support services, salaries, and employee future benefits. These costs are assumed by the province and not reflected in these financial statements.

The Commission does not have a separate bank account. All transactions are processed through the province's bank account.

The following is a summary of operations conducted by the Atlantic Lottery Corporation Inc. (ALC) on behalf of the Commission. Net profits were distributed to the Commission as follows:

	<u>Lottery Ticket Sales</u> \$	<u>Video Lottery Sales</u> \$	<u>Red Shores Charlottetown</u> \$	<u>Red Shores Summerside</u> \$	<u>2015</u> \$	<u>2014</u> \$
Gross profit	11,110,783	14,127,266	13,130,096	2,144,323	40,512,468	41,194,963
Expenses	(6,581,658)	(4,076,405)	(12,215,746)	(2,375,443)	(25,249,252)	(25,879,804)
Net profit	<u>4,529,125</u>	<u>10,050,861</u>	<u>914,350</u>	<u>(231,120)</u>	<u>15,263,216</u>	<u>15,315,159</u>

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of net profit attributable to the Commission as determined by the net profit of ALC in accordance with ALC's financial reporting framework.

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## **16. Pensions and Employee Benefits**

Atlantic Lottery Corporation Inc. participates in a multiple-employer defined benefit contributory pension plan. ALC also provides certain post-employment healthcare benefits, long service awards, extended health and dental benefits, life insurance, and ad-hoc supplementary pensions. The portion of expenditures allocated to the Commission through ALC's profit distributions related to pensions is \$198,460 (2014 - \$1,066,281) and \$111,308 (2014 - \$199,845) related to employee benefits.

In addition to the transactions above, ALC also made special pension payments during the year of \$9.5 million (2014 - \$7.9 million). The Commission's portion of these special payments is funded through monthly withholdings from future profit distribution as stated in Note 6.

## **17. Capital Management**

The Commission's capital is made up of its equity and long-term debt which consists primarily of the outstanding deficit and the long-term liability resulting from the investment in the Atlantic Lottery Corporation Inc. The objective when managing capital is to provide an adequate return to enable it to meet its funding obligations. The Commission sets the amount of capital in proportion to risk and manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Commission may reduce its funding contributions to the province. The Commission is not subject to any externally imposed capital requirements or financial debt covenants and does not presently utilize any quantitative measures to maintain capital.

## **18. Subsequent Event**

In a meeting of July 15, 2015, Members of the Commission passed a resolution to repay the full loan amount of \$4.3 million to Atlantic Lottery Corporation Inc. (ALC) for the loan used to fund the Commission's share of the investment in Geonomics Global Games Limited. The loan will be repaid by withholding future profit distribution receipts from ALC until the debt is repaid. This transaction will reduce future cash flows.