

Prince Edward Island
Lotteries Commission
Annual Report
2017 – 2018



The Honourable Antoinette Perry
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, 2018.

Respectfully submitted,

A handwritten signature in black ink, consisting of a large, stylized 'D' followed by a horizontal line and a small flourish.

Darlene Compton
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.

Legislative Framework

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, the Atlantic Lottery Corporation (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.

Officers and Board Members

The Honourable J. Heath MacDonald became Minister of Finance and assumed the chair role for the Commission from Allen F. Roach effective on January 10, 2018. Neil Stewart, Deputy Minister of Finance, replaced David Arsenault on September 17, 2017 as Vice-Chair. Dan Campbell served as Secretary-Treasurer during the 2017-2018 fiscal year.

Dan Campbell and Ms. Patricia Mella were Prince Edward Island’s representatives on the Board of Directors of Atlantic Lottery Corporation.

Atlantic Lottery Corporation

The Commission has entered into the following agreements with the four shareholders of ALC:

1. an agreement to establish and operate a regional lottery in 1976;
2. the Unanimous Shareholders' Agreement dated November 15, 1976 governing the manner in which proceeds from lottery schemes would be distributed; and
3. on July 4, 2000 an agreement to amend and restate the Unanimous Shareholders Agreement on conduct and management of lottery schemes.

The Commission is also a shareholder of the Interprovincial Lottery Corporation.

The Corporation is mandated to provide profits to the four shareholders. It has a dual commercial and social responsibility purpose, whereby a player protection commitment is balanced against the need for sustainable long-term growth. The evolving global gaming marketplace has created increased competition which requires technology investment decisions for the benefit of Atlantic Canadians.

In Atlantic Canada, ALC operates retail lotteries, internet sales, Destination and Red Shores. Retail includes the national games – Lotto Max and Lotto 6/49, administered through the Interprovincial Lottery Corporation, plus many other draw games that are sold through licensed retailers. Destination includes the video lottery network in age restricted sites. Red Shores includes casino games, harness racing, food and beverage, and lottery tickets offered at two facilities on Prince Edward Island.

The Commission's activities managed by ALC include the following results for the year ended March 31, 2018:

Table 1
Atlantic Lottery Corporation
Prince Edward Island Profit by Program
(000's)

	Total	
	2018	2017
Revenues		
Retail Lottery Ticket & Internet Sales	\$ 36,453	\$ 35,612
Less Ticket Prizes	<u>(21,418)</u>	<u>(20,177)</u>
Net	15,035	15,435
Net - Video Lottery Receipts	20,683	19,301
Red Shores	<u>19,626</u>	<u>19,259</u>
Net Revenues	55,344	53,995
Total Direct Expenses	<u>9040</u>	<u>8,614</u>
Gross Profit	46,325	45,381
Other Expenses	<u>27,546</u>	<u>27,437</u>
<u>Net Profit</u>	<u>\$18,779</u>	<u>\$17,944</u>
<u>Profit Distribution</u>		
Tickets	\$ 4,617	\$ 4,795
Video Lottery	12,326	11,219
Red Shores	<u>1,836</u>	<u>1,930</u>
	<u>\$18,779</u>	<u>\$17,944</u>

In summary, the highlights are:

- Overall, revenues grew at a faster rate than expenses compared to the previous year;
- PEI finished \$1.4M above the prior year in net profit, benefiting from the strongest economy in Atlantic Canada; and
- Red Shores sales includes Casino games (\$14.4M), harness racing (\$2.1M), and food and beverage (\$3.2M).

From the funds which ALC generated, \$2,100,000 was used in both 2018 and 2017, 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-mutuel wagering in the amount of \$573,474 (2017 - \$595,013).

Financial Statements

The Financial Statements of the Prince Edward Island Lotteries Commission, as audited by the Auditor General's Office, follow as an Appendix to 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 accounted for using the equity method, whereby it is initially recorded at cost and the carrying amounts are increased or decreased to recognize income or loss and reduced as distributions are received by the Commission.

At the beginning of the 2018 year, the Commission reported a \$2.2M shareholder deficit. During the year, the Commission received comprehensive income amounting to \$15.7M, and paid out distributions of \$13.2M, resulting in a shareholder equity position of \$0.3M at year end.

The shareholder deficiency, originally reported in 2012, resulted from various adjustments on conversion to IFRS, the most significant of which related to the employee future benefit liability. The Commission entered into an arrangement with ALC to withhold \$158,208 of its monthly profit distributions to fund its share of ALC's deficit. These withholdings commenced in September 2013. As at April 1, 2018, the total amount remaining to be withheld is \$1.9M.

Appendix
Audited Financial Statements
2017 - 2018

**PRINCE EDWARD ISLAND
LOTTERIES COMMISSION**

Financial Statements
March 31, 2018



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, 2018, and the statements of comprehensive income, changes in shareholder equity (deficit), 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, 2018, 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 21, 2018

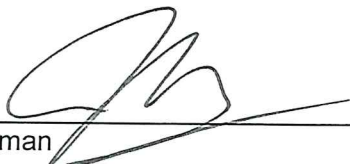
**PRINCE EDWARD ISLAND
LOTTERIES COMMISSION**

Statement of Financial Position
March 31, 2018

	2018	2017
	\$	\$
Assets		
Current Assets		
Accounts receivable (Note 11)		
Atlantic Lottery Corporation Inc.	<u>278,439</u>	<u>468,030</u>
Non Current Assets		
Investment in Interprovincial Lottery Corporation	1	1
Investment in Atlantic Lottery Corporation (Note 8)	<u>270,025</u>	<u>-</u>
	<u>270,026</u>	<u>1</u>
Total Assets	<u>548,465</u>	<u>468,031</u>
Liabilities and Shareholder Equity (Deficit)		
Current Liabilities		
Accounts payable		
Province of Prince Edward Island	278,439	468,030
Non Current Liabilities		
Investment in Atlantic Lottery Corporation Inc. (Note 8)	<u>-</u>	<u>2,228,930</u>
	278,439	2,696,960
Shareholder Equity (Deficit)		
Contributed surplus (Note 5)	101	101
Accumulated other comprehensive income (loss)	104,876	(542,419)
Retained earnings (deficit)	<u>165,049</u>	<u>(1,686,611)</u>
	<u>270,026</u>	<u>(2,228,929)</u>
Total Liabilities and Shareholder Equity	<u>548,465</u>	<u>468,031</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, 2018

	2018	2017
	\$	\$
Revenues		
Distributions of Atlantic Lottery Corporation Inc. net profit (Note 15)		
Lottery ticket sales	4,617,273	4,794,594
Video lottery sales	12,326,096	11,219,288
Entertainment centres net profit (loss)		
Red Shores at Charlottetown Driving Park	1,982,682	2,134,439
Red Shores at Summerside Raceway	(147,039)	(203,913)
	<u>18,779,012</u>	<u>17,944,408</u>
Expenses		
Grants to the harness racing industry (Note 10)	3,010,529	2,902,617
Grant to the City of Charlottetown (Note 12)	400,000	400,000
Responsible Gaming Strategy (Note 13)	209,972	147,179
Other	50,000	5,000
	<u>3,670,501</u>	<u>3,454,796</u>
Net income	15,108,511	14,489,612
Other comprehensive income		
Commission share of other comprehensive income of Atlantic Lottery Corporation Inc. (Note 8)	600,478	1,478,662
Comprehensive income	<u>15,708,989</u>	<u>15,968,274</u>

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

**PRINCE EDWARD ISLAND
LOTTERIES COMMISSION**

Statement of Changes in Shareholder Equity (Deficit)
for the year ended March 31, 2018

	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	2018 Shareholder Equity (Deficit)
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Balance, beginning of year	101	(542,419)	(1,686,611)	(2,228,929)
Net income	-	-	15,108,511	15,108,511
Other comprehensive income	-	647,295	(46,817)	600,478
Comprehensive income	-	647,295	15,061,694	15,708,989
Distributions to the Province of Prince Edward Island	-	-	(13,210,034)	(13,210,034)
Balance, end of year	<u>101</u>	<u>104,876</u>	<u>165,049</u>	<u>270,026</u>

	Contributed Surplus	Accumulated Other Comprehensive (Loss)	Deficit	2017 Shareholder Deficit
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Balance, beginning of year	101	(1,000,207)	(4,605,981)	(5,606,087)
Net income	-	-	14,489,612	14,489,612
Other comprehensive income	-	457,788	1,020,874	1,478,662
Comprehensive income	-	457,788	15,510,486	15,968,274
Distributions to the Province of Prince Edward Island	-	-	(12,591,116)	(12,591,116)
Balance, end of year	<u>101</u>	<u>(542,419)</u>	<u>(1,686,611)</u>	<u>(2,228,929)</u>

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

**PRINCE EDWARD ISLAND
LOTTERIES COMMISSION**

Statement of Cash Flow
March 31, 2018

	2018	2017
	\$	\$
Cash provided (used) by:		
Operating Activities		
Cash received from Atlantic Lottery Corporation Inc.	18,968,603	17,297,806
Cash paid to the harness racing industry	(3,010,529)	(2,902,617)
Cash paid to the City of Charlottetown	(400,000)	(400,000)
Cash paid for the Responsible Gaming Strategy	(209,972)	(147,179)
Cash paid for other	(50,000)	(5,000)
Cash provided by operating activities	<u>15,298,102</u>	<u>13,843,010</u>
Financing Activities		
Distributions to the Province of Prince Edward Island	(13,399,606)	(11,944,514)
Deficit repayment (Note 14(b))	(1,898,496)	(1,898,496)
Cash used by financing activities	<u>(15,298,102)</u>	<u>(13,843,010)</u>
Change in cash	-	-
Cash, beginning of year	-	-
Cash, end of year	<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, 2018

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

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 21, 2018.

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements
March 31, 2018

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, 2018. 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(e).

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) 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.

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.

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements
March 31, 2018

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

e) International Financial Reporting Standards Not Yet in Effect

At the date of authorizing 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, 2018.

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, 2018.

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.

Management is currently reviewing these changes.

f) 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.

4. Significant Accounting Judgments and Estimates

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.

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements
March 31, 2018

4. Significant Accounting Judgments and Estimates (continued...)

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 (2017 - \$102,042), and amounts recorded in Atlantic Lottery Corporation Inc. (ALC) financial statements such as the useful lives of tangible and intangible assets, impairment of financial and 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.

5. 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.

6. 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.

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements
March 31, 2018

7. 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. Allowance for doubtful accounts is reviewed at each financial statement date. The Commission has an impaired receivable totalling \$102,042 (2017 - \$102,042) as described in Note 11.

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.

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.

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements
March 31, 2018

8. 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>2018</u> \$ (in thousands)	<u>2017</u> \$ (in thousands)
Current assets	64,429	68,155
Non current assets	184,823	191,547
Current liabilities	(112,230)	(112,010)
Non current liabilities	<u>(103,257)</u>	<u>(130,855)</u>
Shareholder equity	<u>33,765</u>	<u>16,837</u>
Commission portion of shareholder equity (deficit)	<u>270</u>	<u>(2,229)</u>
	<u>2018</u> \$ (in thousands)	<u>2017</u> \$ (in thousands)
Revenues (net)	756,157	760,078
Expenses	(284,719)	(286,988)
Other losses	<u>(52,213)</u>	<u>(51,158)</u>
Net income	419,225	421,932
Other comprehensive income	<u>2,808</u>	<u>11,474</u>
Comprehensive income	422,033	433,406
Income allocated to shareholders	<u>(419,200)</u>	<u>(422,021)</u>
Undistributed income to shareholders	<u>2,833</u>	<u>11,385</u>
Commission portion of undistributed income	<u>600</u>	<u>1,479</u>

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements
March 31, 2018

9. 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 \$14,890,059 as at March 31, 2018 (2017 - \$15,054,442). Included in this are assets of \$750,000 relating to the construction of a stabling barn and parking lot at Red Shores Racetrack & Casino at Charlottetown Driving Park. ALC is carrying a loan of \$432,571 related to the stabling barn, with a fixed interest rate of 3.5 percent, maturing in November 2018.

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 \$1,277,515 as at March 31, 2018 (2017 - \$1,586,481). This amount includes leasehold improvements of \$724,813 (2017 - \$845,316), 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 \$2,149,532. These amounts are included in the operating lease commitments amounts disclosed in Note 14(c).

ALC is carrying a loan related to the Charlottetown and Summerside gaming entertainment centres in the amount of \$7,337,000 (2017 - \$8,067,000) amortized over 20 years, repayable in monthly installments of principal plus interest at variable interest rates and hedged by a fixed interest rate swap bearing interest at 3.14 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 stabling barn.

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements
March 31, 2018

10. Grants to the Harness Racing Industry

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

	<u>2018</u>	<u>2017</u>
	\$	\$
Grant to PEI Harness Racing Industry Association	2,100,000	2,100,000
Grant to Prince County Horsemen's Club	136,554	95,000
Grant to Maritime Provinces Harness Racing Commission	125,501	112,604
Grant to support the World Driving Championship	75,000	-
Grants for sales tax due from pari-mutuel wagering	<u>573,474</u>	<u>595,013</u>
	<u>3,010,529</u>	<u>2,902,617</u>

11. Accounts Receivable

	<u>2018</u>	<u>2017</u>
	\$	\$
Atlantic Lottery Corporation Inc.	278,439	468,030
Harness Racing PEI Inc.	<u>102,042</u>	<u>102,042</u>
	380,481	570,072
Less: Provision for doubtful accounts	<u>(102,042)</u>	<u>(102,042)</u>
	<u>278,439</u>	<u>468,030</u>

12. 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 was to receive \$400,000 per annum for ten years beginning with the year ended December 31, 2005. The original agreement ended in December 2014. Treasury Board authorized a five year extension of the agreement for fiscal year 2015-16 to 2019-20. This amount is subject to adjustment if the Charlottetown gaming entertainment centre operates less than 300 days in a given year.

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements
March 31, 2018

13. 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.

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

	<u>2018</u> \$	<u>2017</u> \$
Gaming Strategy - Consulting Services	-	1,350
Activities carried out by:		
The Department of Health and Wellness	<u>209,972</u>	<u>145,829</u>
	<u>209,972</u>	<u>147,179</u>

14. 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

In 2012, ALC reported a shareholder deficiency as a result of various adjustments required in the conversion of its accounting framework to International Financial Reporting Standards. The most significant portion of the deficit related to the employee future benefit liability. The Commission entered into an arrangement with ALC to withhold \$158,208 monthly from its profit distribution in order to fund its portion of ALC's deficit. The arrangement commenced effective September 15, 2013 and the total amount remaining to be withheld between April 1, 2018 and March 31, 2019 is \$1,898,496.

c) Operating Leases

The Commission, as a shareholder in ALC is responsible for a portion of the leases entered into by ALC. The Commission's portion of ALC's minimum future annual lease payments are as follows:

<u>Fiscal Year</u>	<u>Amount</u> \$
2019	722,400
2020	739,400
2021	740,400
2022	742,400
Thereafter	2,679,000

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14. Commitments (continued...)

d) Other Commitments

The Commission, as a shareholder in ALC is responsible for a portion of multiple agreements for infrastructure services, application services, and project services entered into by ALC. The Commission's portion of ALC's annual payments for other commitments over the next five years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
	\$
2019	1,518,600
2020	1,325,900
2021	675,100
2022	273,100
2023	114,600

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 equity (deficit). Other transactions with the province, its Crown corporations, and agencies are recorded at rates as determined by the province.

There are resources provided to the Commission 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>2018</u>	<u>2017</u>
	\$	\$	\$	\$	\$	\$
Gross profit	11,596,791	16,623,778	15,380,384	2,723,669	46,324,622	45,381,683
Expenses	(6,979,518)	(4,297,682)	(13,397,702)	(2,870,708)	(27,545,610)	(27,437,275)
Net profit	<u>4,617,273</u>	<u>12,326,096</u>	<u>1,982,682</u>	<u>(147,039)</u>	<u>18,779,012</u>	<u>17,944,408</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 \$619,005 (2017 - \$759,295) and \$183,275 (2017 - \$161,493) related to employee benefits.

In addition to the transactions above, ALC also made special pension payments during the year of \$5.3 million (2017 - \$11.8 million). The Commission's portion of these special payments is funded through monthly withholdings from future profit distribution as stated in Note 14(b).

17. Capital Management

The Commission's capital is its equity which consists primarily of the outstanding 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.