

Prince Edward Island
Lotteries Commission
Annual Report
2018 – 2019



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, 2019.

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, Minister of Finance served as Chair for the Commission. Neil Stewart, Deputy Minister of Finance, served as Vice-Chair, and Dan Campbell was Secretary-Treasurer. Dan Campbell and Patricia Mella were Prince Edward Island’s representatives on the Board of Directors of Atlantic Lottery Corporation (ALC).

Following the Provincial Election on April 23, 2019, Honorable Darlene Compton became the Chair for the Commission and Minister of Finance. Dan Campbell became Vice-Chair and Cindy Harris assumed the role of Secretary-Treasurer.

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;
3. on July 4, 2000 an agreement to amend and restate the Unanimous Shareholders Agreement on conduct and management of lottery schemes, and
4. an update to the Unanimous Shareholder Agreement was authorized (EC2019-142) on March 12, 2019 by the Province of Prince Edward Island.

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 2019-2022 Strategic Plan for ALC has three key strategic delivery streams, as follows:

- Elevate the player
- Acquire and develop U35, and
- Grow existing player base

The plan is to reverse the declining player base, especially in the under 35 segment, and become a more player-centric organization.

The Commission's activities managed by ALC include the following results for the year ended March 31, 2019:

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

	Total	
	2019	2018
Revenues		
Retail Lottery Ticket & Internet Sales	\$ 38,840	\$ 36,453
Less Ticket Prizes	<u>(22,498)</u>	<u>(21,418)</u>
Net	16,342	15,035
Net - Video Lottery Receipts	20,723	20,683
Red Shores	<u>19,076</u>	<u>19,626</u>
Net Revenues	56,141	55,344
Total Direct Expenses	<u>8,792</u>	<u>9,040</u>
Gross Profit	47,376	46,325
Other Expenses	<u>29,125</u>	<u>27,546</u>
<u>Net Profit</u>	<u>\$18,251</u>	<u>\$18,779</u>
<u>Profit Distribution</u>		
Tickets	\$ 5,406	\$ 4,617
Video Lottery	11,894	12,326
Red Shores	<u>951</u>	<u>1,836</u>
	<u>\$18,251</u>	<u>\$18,779</u>

In summary, the highlights are:

- Retail lottery tickets sales are up 6.5% over the previous years;
- Net profit at Red Shores have decreased, and sales are lower which is mainly due to poor weather, particularity during Old Home Week; and
- Red Shores revenues includes Casino games (\$14M), harness racing (\$2M), and food and beverage (\$3.1M).
- Video lottery receipts on PEI are similar to the prior year, but have declined in the other Atlantic Provinces.

From the funds which ALC generated, \$3,730,000 was used in 2019 (2018 - \$2,100,000) to assist the PEI Harness Racing Industry Association. The increase in 2019 was to expand the purse pool and create growth in the industry which draws off Island visitors year round. 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 \$535,634 (2018 - \$573,474).

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 2019 year, the Commission had a \$0.3M shareholder equity position which increased to \$1.7M, resulting from comprehensive income of \$12.6M less distributions of \$11.2M.

The shareholder deficiency 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 and concluded in March 2019.

Appendix
Audited Financial Statements
2018 - 2019

**PRINCE EDWARD ISLAND
LOTTERIES COMMISSION**

Financial Statements
March 31, 2019



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

Opinion

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, 2019, and the statements of comprehensive income, changes in shareholder equity (deficit), and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2019, and its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

I conducted the audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Commission in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or cease the operations of the Commission, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



B. Jane MacAdam, FCPA, CA
Auditor General

Charlottetown, Prince Edward Island
September 24, 2019

**PRINCE EDWARD ISLAND
LOTTERIES COMMISSION**

Statement of Financial Position
March 31, 2019

	2019	2018
	\$	\$
Assets		
Current Assets		
Accounts receivable (Note 11)		
Atlantic Lottery Corporation Inc.	196,585	278,439
Non Current Assets		
Investment in Interprovincial Lottery Corporation	1	1
Investment in Atlantic Lottery Corporation (Note 8)	<u>1,662,657</u>	<u>270,025</u>
	<u>1,662,658</u>	<u>270,026</u>
Total Assets	<u>1,859,243</u>	<u>548,465</u>
Liabilities and Shareholder Equity		
Current Liabilities		
Accounts payable		
Province of Prince Edward Island	196,585	278,439
Shareholder Equity		
Contributed surplus (Note 5)	101	101
Accumulated other comprehensive income (loss)	(122,556)	104,876
Retained earnings	<u>1,785,113</u>	<u>165,049</u>
	<u>1,662,658</u>	<u>270,026</u>
Total Liabilities and Shareholder Equity	<u>1,859,243</u>	<u>548,465</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, 2019

	2019	2018
	\$	\$
Revenues		
Distributions of Atlantic Lottery Corporation Inc. net profit (Note 15)		
Lottery ticket sales	5,406,851	4,617,273
Video lottery sales	11,893,314	12,326,096
Entertainment centres net profit (loss)		
Red Shores at Charlottetown Driving Park	1,173,435	1,982,682
Red Shores at Summerside Raceway	(222,672)	(147,039)
	18,250,928	18,779,012
Other	473	-
	<u>18,251,401</u>	<u>18,779,012</u>
Expenses		
Grants to the harness racing industry (Note 10)	4,526,027	3,010,529
Grant to the City of Charlottetown (Note 12)	400,000	400,000
Responsible Gaming Strategy (Note 13)	207,397	209,972
Other	4,357	50,000
	<u>5,137,781</u>	<u>3,670,501</u>
Net income	13,113,620	15,108,511
Other comprehensive income		
Commission share of other comprehensive income (loss) of Atlantic Lottery Corporation Inc. (Note 8)	<u>(505,874)</u>	<u>600,478</u>
Comprehensive income	<u>12,607,746</u>	<u>15,708,989</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, 2019

	<u>Contributed Surplus</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings</u>	<u>2019 Shareholder Equity</u>
	\$	\$	\$	\$
Balance, beginning of year	101	104,876	165,049	270,026
Net income	-	-	13,113,620	13,113,620
Other comprehensive income	-	(227,432)	(278,442)	(505,874)
Comprehensive income	-	(227,432)	12,835,178	12,607,746
Distributions to the Province of Prince Edward Island	-	-	(11,215,114)	(11,215,114)
Balance, end of year	<u>101</u>	<u>(122,556)</u>	<u>1,785,113</u>	<u>1,662,658</u>

	<u>Contributed Surplus</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Retained Earnings (Deficit)</u>	<u>2018 Shareholder Equity (Deficit)</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>

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

**PRINCE EDWARD ISLAND
LOTTERIES COMMISSION**

Statement of Cash Flow
March 31, 2019

	2019	2018
	\$	\$
Cash provided (used) by:		
Operating Activities		
Cash received from Atlantic Lottery Corporation Inc.	18,333,255	18,968,603
Cash paid to the harness racing industry	(4,526,027)	(3,010,529)
Cash paid to the City of Charlottetown	(400,000)	(400,000)
Cash paid for the Responsible Gaming Strategy	(207,397)	(209,972)
Cash paid for other	(4,357)	(50,000)
Cash provided by operating activities	<u>13,195,474</u>	<u>15,298,102</u>
Financing Activities		
Distributions to the Province of Prince Edward Island	(11,296,978)	(13,399,606)
Deficit repayment (Note 14(b))	(1,898,496)	(1,898,496)
Cash used by financing activities	<u>(13,195,474)</u>	<u>(15,298,102)</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, 2019

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 September 24, 2019.

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements
March 31, 2019

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, 2019. 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(f).

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) Adoption of New Accounting Standards

IFRS 9 Financial Instruments (IFRS 9)

IFRS 9 replaces International Accounting Standard 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces amendments to classification and measurement for financial assets and liabilities, a new expected loss impairment model, and a new hedge accounting model.

The Commission has reviewed the changes and determined there is no significant quantitative impact on the Commission's financial statements.

IFRS 15, Revenue from Contracts with Customers (IFRS 15)

IFRS 15 introduced a single model for recognizing revenue from contracts with customers. The adoption of IFRS 15 did not have a significant quantitative impact on the Commission's financial statements.

The Commission has consistently applied accounting policies as described in this note to all periods presented in these financial statements. The Commission has adopted IFRS 9 and IFRS 15, including any consequential amendments to other standards as at April 1, 2018. New disclosures have been presented as required by the standards.

d) 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.

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements
March 31, 2019

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

e) Investment in Atlantic Lottery Corporation

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.

f) International Financial Reporting Standards Not Yet in Effect

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 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.

g) 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.

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 reflect the most probable set of economic conditions and planned courses of action.

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements
March 31, 2019

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

Items requiring the use of significant estimates include expected credit losses of \$101,570 (2018 - \$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 include accounts receivable, accounts payable, and investment in Interprovincial Lottery Corporation.

Prior to the adoption of IFRS 9 as described in Note 3(c), accounts receivable were classified as loans and receivables measured at amortized cost using the effective interest method less a provision for impairment. Accounts payable were classified as other financial liabilities measured as amortized cost using the effective interest method.

Upon implementation of IFRS 9 at April 1, 2018, the Commission has determined that accounts receivable and accounts payable are subsequently measured at amortized cost.

There was no quantitative impact to the financial statements as a result of these changes in classification.

The investment in the Interprovincial Lottery Corporation (ILC) is an equity investment with no quoted price on an active market. Prior to the adoption of IFRS 9 the investment in ILC was carried at cost. The adoption of IFRS 9 no longer permits cost as an acceptable basis for valuing equity investments. Effective April 1, 2018, the Commission adopted a fair value through profit and loss (FVTPL) as the basis for valuation of this asset class.

Due to the nature of the investment, measurement at FVTPL did not result in a change to the value reported on the statement of financial position

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements
March 31, 2019

6. Financial Instruments (continued...)

Fair Value

All financial instruments are initially recognized at fair value. Accounts receivable and accounts payable are short-term in nature, therefore the net carrying value is considered a reasonable approximation of fair value.

The investment in ILC represents one share of the ten shares issued by ILC to the ten provinces in Canada. The outstanding ten common shares have no par value. It has been classified in level 3 of the fair value hierarchy, meaning the inputs into the determination of fair value are unobservable and require significant management judgement.

The commission has determined that the fair value of the investment in ILC should remain at the nominal value previously assigned under IAS39. The investment in ILC allows for the coordination of national games, holding the unclaimed prize pools on behalf of the regional lottery authorities including ALC. ILC distributes its annual surplus to (recovers its deficit from) the regional lottery authorities. The Commission's participation in lotteries is conducted through the ALC and any value generated from its investment in ILC is distributed through ALC. The ALC is responsible for marketing the national games with PEI and for the recording of revenue and expenses generated by the national games. As described in Note 3(e), PEI's proportionate share of ALC is included in the financial statements of the Commission.

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. Expected credit losses are reviewed at each financial statement date. The Commission has an expected credit loss totalling \$101,570 (2018 - \$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, 2019

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>2019</u> \$ (in thousands)	<u>2018</u> \$ (in thousands)
Current assets	61,794	64,429
Non current assets	166,797	184,823
Current liabilities	(102,035)	(112,230)
Non current liabilities	<u>(83,146)</u>	<u>(103,257)</u>
Shareholder equity	<u>43,410</u>	<u>33,765</u>
Commission portion of shareholder equity	<u>1,663</u>	<u>270</u>

	<u>2019</u> \$ (in thousands)	<u>2018</u> \$ (in thousands)
Revenues (net)	764,834	756,157
Expenses	(289,673)	(284,719)
Other losses	<u>(52,920)</u>	<u>(52,213)</u>
Net income	422,241	419,225
Other comprehensive income (loss)	<u>(4,457)</u>	<u>2,808</u>
Comprehensive income	417,784	422,033
Income allocated to shareholders	<u>(422,225)</u>	<u>(419,200)</u>
Undistributed income to shareholders	<u>(4,441)</u>	<u>2,833</u>
Commission portion of undistributed income/(deficit)	<u>(506)</u>	<u>600</u>

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 \$14,178,076 as at March 31, 2019 (2018 - \$14,890,059). 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 \$416,420 related to the stabling barn, with a fixed interest rate of 3.5 percent, maturing in May 2038.

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements
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9. Gaming Entertainment Centres (continued...)

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 \$987,194 as at March 31, 2019 (2018 - \$1,277,515). This amount includes leasehold improvements of \$608,513 (2018 - \$724,813), 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 with minimum future aggregate lease payments to the end of the 15 year lease term totalling \$1,814,540. These amounts are included in the operating lease commitments disclosed in Note 14(c).

ALC is carrying a loan related to the Charlottetown and Summerside gaming entertainment centres in the amount of \$6,581,000 (2018 - \$7,337,000) 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 of 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.

10. Grants to the Harness Racing Industry

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

	<u>2019</u>	<u>2018</u>
	\$	\$
Grant to PEI Harness Racing Industry Association	3,730,000	2,100,000
Grant to Prince County Horsemen's Club	125,000	136,554
Grant to Maritime Provinces Harness Racing Commission	122,464	125,501
Grant to support the World Driving Championship	-	75,000
Grant to support Matinee Racetracks	12,929	-
Grants for sales tax due from pari-mutuel wagering	<u>535,634</u>	<u>573,474</u>
	<u>4,526,027</u>	<u>3,010,529</u>

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11. Accounts Receivable

	<u>2019</u>	<u>2018</u>
	\$	\$
Atlantic Lottery Corporation Inc.	196,585	278,439
Harness Racing PEI Inc.	<u>101,570</u>	<u>102,042</u>
	298,155	380,481
Less: Expected credit losses	<u>(101,570)</u>	<u>(102,042)</u>
	<u>196,585</u>	<u>278,439</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.

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. Costs of \$207,397 (2018 - \$209,972) were paid to the Department of Health and Wellness for activities relating to the strategy.

14. Commitments

a) Responsible Gaming Strategy

The Commission has committed a maximum of \$303,500 in 2019-20 and \$305,000 in 2020-21 to support the on-going implementation of a 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 concluded on March 31, 2019.

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14. Commitments (continued...)

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> \$
2020	760,231
2021	748,531
2022	748,531
2023	718,005
2024	458,166
Thereafter	1,069,904

d) Other Commitments

The Commission, as a shareholder in ALC is responsible for a portion of the 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> \$
2020	643,400
2021	521,600
2022	320,300
2023	155,700
2024	39,900

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.

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15. Related Party Transactions (continued...)

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>2019</u>	<u>2018</u>
	\$	\$	\$	\$	\$	\$
Gross profit	13,001,370	16,636,706	14,934,008	2,803,884	47,375,968	46,324,622
Expenses	(7,594,519)	(4,743,392)	(13,760,573)	(3,026,556)	(29,125,040)	(27,545,610)
Net profit	<u>5,406,851</u>	<u>11,893,314</u>	<u>1,173,435</u>	<u>(222,672)</u>	<u>18,250,928</u>	<u>18,779,012</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.

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 \$674,339 (2018 - \$619,005) and \$167,929 (2018 - \$183,275) related to employee benefits.

In addition to the transactions above, ALC also made special pension payments during the year of \$4.9 million (2018 - \$5.3 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 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.