

Prince Edward Island
Lotteries Commission
Annual Report
2013 - 2014

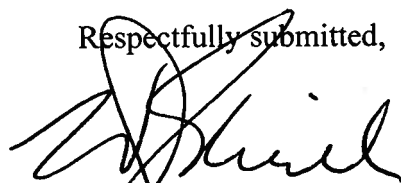


The Honourable H. Frank Lewis
Lieutenant Governor of Prince Edward Island
PO Box 846
Charlottetown, PE C1A 7L9

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, 2014.

Respectfully submitted,



Wesley J. Sheridan
Minister of Finance, Energy and Municipal Affairs



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.

Commission Established

The *Lotteries Commission Act* enacted by the Legislative Assembly at its 1976 Session and given Royal Assent on April 22, 1976, provided for the establishment of a Prince Edward Island Lotteries Commission (Commission). The Act was proclaimed via Order-In-Council No. EC 673/76 for effect on July 24, 1976.

Officers and Members

As of March 31, 2014, the members and officers of the Commission were the Honourable Wesley J. Sheridan, Chair, David Arsenault as Vice-Chair and Doug Clow, Secretary-Treasurer.

Mr. Doug Clow and Ms. Patricia A. Mella were Prince Edward Island's representatives as Directors on the Atlantic Lottery Corporation's Board of Directors.

Bylaws of the Commission

In addition to the requirements of the *Lotteries Commission Act*, the Commission is governed by Bylaws which were approved by the Lieutenant Governor in Council on August 26, 1976, via EC 794/76.

Agreements

As provided in Section 7 of the *Lotteries Commission Act*, subsections (b) and (c), the Commission has recommended three agreements for consideration of the Lieutenant Governor in Council, all of which were approved and subsequently entered into by the Commission:

1. EC 796/76 of August 26, 1976: an agreement with the Provinces of Nova Scotia, New Brunswick and Newfoundland to establish and operate a regional lottery.

2. EC 797/76 of August 26, 1976: an agreement for the establishment of the Atlantic Lottery Corporation.
3. EC 2007/380 of July 4, 2000: an agreement to amend and restate the Unanimous Shareholders' Agreement governing the conduct and management of lottery schemes in the Atlantic Provinces.

Gaming and Harness Racing

The Gaming Centres Control Regulations, 2009, set out the regulatory regime governing the operation of electronic gaming devices or video lottery terminals. Under this legislative framework, the Commission is responsible for overall leadership, direction and control of gaming in PEI. Gaming operations in PEI are under the responsibility of the Atlantic Lottery Corporation. They operate provincial gaming programs such as video lottery, Atlantic 6/49, and scratch and win games. Retailers across this Province are licensed to sell tickets and certain entertainment establishments are licensed to operate electronic gaming devices.

The Atlantic Lottery Corporation operates Red Shores Racetrack & Casino at the Charlottetown Driving Park and Red Shores at the Summerside Raceway. The Summerside facility is leased from the City of Summerside.

Financial Report

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 using the equity method which involves recognizing its share of income and losses less distributions. For the year ended March 31, 2014, the Commission's portion of undistributed income was \$3,570,203 (loss of \$1,565,100 in 2013) which has contributed to a reduction in the Shareholder Deficiency that has a balance of \$8,140,437 at March 31, 2014 (\$12,283,000 at March 31, 2013). 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.


Financial Performance

Prince Edward Island's share of revenue generated through the operation of lottery, gaming and harness racing programs by the Atlantic Lottery Corporation was \$15,315,159 (2013 - \$15,644,631). Table 1 provides comparative information for Prince Edward Island profits. The lottery revenue received in Fiscal Year 2013-14 represents a 2.1% decrease over the prior year. The decrease is largely due to higher expenses which have been partially offset by a 1.8% increase to net revenues.

From the funds which the Atlantic Lottery Corporation generated, \$2,100,000 was used in 2014 and \$2,100,000 in 2013 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 \$655,726 (2013 - \$696,615). 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.

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

	Total	
	2014	2013
Revenues	\$	\$
Gross Ticket Sales	34,048	33,872
Net Video Lottery Receipts	17,491	17,093
Red Shores	17,049	16,549
Prizes on Ticket Sales	<u>(19,447)</u>	<u>(19,224)</u>
Net Revenues	<u>49,141</u>	<u>48,290</u>
Direct Expenses		
<u>Commissions</u>		
Tickets	2,429	2,437
Video Lottery	<u>3,106</u>	<u>3,291</u>
Total Commissions	5,535	5,728
<u>Other</u>		
Tickets	563	692
Video Lottery	172	168
Red Shores	<u>1,676</u>	<u>1,423</u>
Total Direct Expenses	<u>7,946</u>	<u>8,011</u>
Gross Profit	<u>41,195</u>	<u>40,279</u>
Expenses		
<u>Operating</u>		
Tickets	6,722	7,089
Video Lottery	3,801	3,072
Red Shores	<u>14,650</u>	<u>13,792</u>
Total Operating	25,173	23,953
Red Shores - Interest	707	681
Total Expenses	<u>25,880</u>	<u>24,634</u>
Net Profit	<u>\$15,315</u>	<u>\$15,645</u>
Profit Distribution		
Tickets	4,884	4,430
Video Lottery	10,412	10,562
Red Shores	<u>19</u>	<u>653</u>
	<u>\$15,315</u>	<u>\$15,645</u>



Appendix
Audited Financial Statements
2013 - 2014

**PRINCE EDWARD ISLAND
LOTTERIES COMMISSION**

Financial Statements
March 31, 2014



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, 2014 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, 2014, and the results of its operations and changes in its cash flow for the year then ended in accordance with International Financial Reporting Standards.

B. Jane MacAdam, CA
Auditor General

Charlottetown, Prince Edward Island
January 21, 2015

**PRINCE EDWARD ISLAND
LOTTERIES COMMISSION**

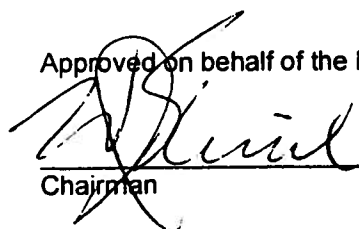
Statement of Financial Position

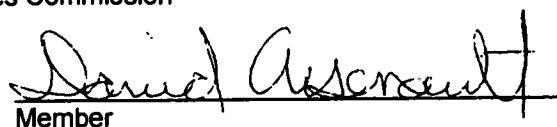
March 31, 2014

	2014	2013
	\$	\$
Assets		
Current Assets		
Accounts receivable (Note 10)		
Province of Prince Edward Island	187,032	-
Atlantic Lottery Corporation Inc.	-	190,860
Other	-	10,737
	<u>187,032</u>	<u>201,597</u>
Non Current Assets		
Investment in Interprovincial Lottery Corporation	<u>1</u>	<u>1</u>
Total Assets	<u><u>187,033</u></u>	<u><u>201,598</u></u>
Liabilities and Shareholder Deficiency		
Current Liabilities		
Accounts payable		
Province of Prince Edward Island	-	101,597
Atlantic Lottery Corporation Inc.	87,032	-
City of Charlottetown	100,000	100,000
	<u>187,032</u>	<u>201,597</u>
Non Current Liabilities		
Investment in Atlantic Lottery Corporation Inc. (Note 6)	<u>8,140,437</u>	<u>12,283,000</u>
	8,327,469	12,484,597
Shareholder Deficiency		
Contributed surplus (Note 3)	101	101
Accumulated other comprehensive income (loss)	791,404	(1,329,000)
Deficit	<u>(8,931,941)</u>	<u>(10,954,100)</u>
	<u>(8,140,436)</u>	<u>(12,282,999)</u>
Total Liabilities and Shareholder Deficiency	<u><u>187,033</u></u>	<u><u>201,598</u></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, 2014

	2014	2013
	\$	\$
Revenues		
Distributions of Atlantic Lottery Corporation Inc. net profit (Note 15)		
Lottery ticket sales	4,884,054	4,429,925
Video lottery sales	10,411,707	10,562,138
Entertainment centres net profit (loss)		
Red Shores Racetrack & Casino at Charlottetown		
Driving Park	260,009	769,663
Red Shores at Summerside Raceway	<u>(240,611)</u>	<u>(117,095)</u>
	<u>15,315,159</u>	<u>15,644,631</u>
Expenses		
Grants to the harness racing industry (Note 8)	3,096,259	2,993,319
Grants in support of Bingo (Note 9)	33,267	139,278
Grant to the City of Charlottetown (Note 11)	400,000	400,000
Grant to PEI 2014 Inc.	100,000	-
Responsible Gaming Strategy (Note 12)	244,884	291,103
Professional services	-	68,972
Impairment loss (Note 14)	<u>535,096</u>	<u>-</u>
	<u>4,409,506</u>	<u>3,892,672</u>
Net income	10,905,653	11,751,959
Other comprehensive income (loss)		
Commission share of other comprehensive income (loss) of Atlantic Lottery Corporation Inc. (Note 6)	<u>3,570,203</u>	<u>(1,565,100)</u>
Comprehensive income	<u>14,475,856</u>	<u>10,186,859</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, 2014

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

	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	2013 Shareholder Deficiency
	\$	\$	\$	\$
Balance, beginning of year	101	(1,603,000)	(9,115,000)	(10,717,899)
Net income	-	-	11,751,959	11,751,959
Other comprehensive income (loss)	-	<u>274,000</u>	<u>(1,839,100)</u>	<u>(1,565,100)</u>
Comprehensive income	-	274,000	9,912,859	10,186,859
Distributions to the Province of Prince Edward Island	-	-	<u>(11,751,959)</u>	<u>(11,751,959)</u>
Balance, end of year	<u>101</u>	<u>(1,329,000)</u>	<u>(10,954,100)</u>	<u>(12,282,999)</u>

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

**PRINCE EDWARD ISLAND
LOTTERIES COMMISSION**

Statement of Cash Flow
March 31, 2014

	2014	2013
	\$	\$
Cash provided (used) by:		
Operating Activities		
Cash received from Atlantic Lottery Corporation Inc.	15,593,051	15,341,059
Cash paid for professional services	-	(68,972)
Cash paid to the harness racing industry	(3,085,523)	(2,993,319)
Cash paid in support of bingo	(33,267)	(139,278)
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	(244,884)	(291,103)
Cash provided by operating activities	<u>11,729,377</u>	<u>11,448,387</u>
Financing Activities		
Distributions to the Province of Prince Edward Island	(10,621,921)	(11,448,387)
Deficit Repayment (Note 6)	(1,107,456)	-
	<u>(11,729,377)</u>	<u>(11,448,387)</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, 2014

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, Energy and Municipal Affairs
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 Commissioners on January 21, 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).

**PRINCE EDWARD ISLAND
LOTTERIES COMMISSION**

Notes to Financial Statements
March 31, 2014

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

Basis of Presentation and Statement of Compliance (continued...)

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, 2014.

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.

**PRINCE EDWARD ISLAND
LOTTERIES COMMISSION**

Notes to Financial Statements
March 31, 2014

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

c) Use of Estimates and Measurement Uncertainty (continued...)

Items requiring the use of significant estimates include provisions for doubtful accounts of \$102,042 (2013 - \$102,042), impairment loss of \$535,096 (2013 - nil), 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. In the current year, the estimate was changed for the allocation of undistributed deficit to the Commission from ALC. This resulted in an adjustment of \$408,688 to increase the investment liability in ALC and decrease other comprehensive income.

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 its 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 adopt them early, 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 date is as follows.

**PRINCE EDWARD ISLAND
LOTTERIES COMMISSION**

Notes to Financial Statements
March 31, 2014

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

e) Future Accounting Pronouncements (continued...)

In December 2010, the International Accounting Standard Board (IASB) issued Phase 1 of a three-phase redrafting of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 Phase 1 "Financial Instruments" requires reporting entities to classify financial assets based on the objective of an entity's business model for managing its financial assets and the characteristics of the contractual cash flows. IFRS 9 permits two classifications for financial assets - fair value through profit or loss and amortized cost. IFRS 9 is effective for fiscal years beginning on or after a future date to be determined, with early adoption permitted.

Management does not anticipate that these standards will have a material impact on its financial statements.

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.

4. Financial Instruments

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

Accounts receivable
Accounts payable

Loans and receivables
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.

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

Notes to Financial Statements
March 31, 2014

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 (2013 - \$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.

As explained in Note 13, ALC has made a commitment for capital expenditures as well as a loan guarantee which could impact the Commission. However, the liquidity risk is minimal given the significant cash inflow from ALC to the Commission from regular operations.

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, 2014

9. Grants in Support of Bingo

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

	<u>2014</u>	<u>2013</u>
	\$	\$
Bingo licensing fees to Department of Environment, Labour and Justice	<u>33,267</u>	<u>139,278</u>

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, as the collectability is uncertain.

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.

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.

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

	<u>2014</u>	<u>2013</u>
	\$	\$
Gaming strategy project officer service contract	500	10,325
Activities carried out by Health PEI	243,656	280,045
Other	<u>728</u>	<u>733</u>
	<u>244,884</u>	<u>291,103</u>

**PRINCE EDWARD ISLAND
LOTTERIES COMMISSION**

Notes to Financial Statements
March 31, 2014

13. Commitments, Contingencies and Guarantee

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) Stabling Barns

Prior to year-end, Atlantic Lottery Corporation Inc. approved a contribution of \$250,000 toward parking lot development at the new stabling barn at Red Shores Racetrack and Casino at the Charlottetown Driving Park. ALC will be recovering its debt amortization costs through depreciation charges, to be included in the cost of operating the Red Shores Racetrack.

In addition, ALC committed to providing a loan guarantee in the amount of \$500,000 on a loan that was taken out subsequent to year end to be used to build the stabling barn. ALC has entered into a contractual obligation with the holder of the loan, in which ALC has agreed to pay the monthly payments required under the loan agreement, as well as the operating costs of the barn, to be recovered through stall rentals collected. In September of 2016, ownership of the barn will transfer to ALC.

As a result of the above commitments, ALC's profit distributions to the Commission will be adjusted to reflect the net amount of revenues and expenses for the new stabling barns, including debt amortization charges and interest on the guaranteed loan.

c) 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, 2014 and March 31, 2019 is \$9,492,480.

**PRINCE EDWARD ISLAND
LOTTERIES COMMISSION**

Notes to Financial Statements
March 31, 2014

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, 2014 were \$81,636 (2013 - \$139,149). 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 as there is no quoted price in an active market.

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, the discounted cash flow approach was utilized. Cash flow projections received from Geonomics management were assessed using a 20 percent discount rate to determine the asset's value in use. The Commission has determined that its share of the carrying value of the investment exceeds fair value and recorded an impairment of \$535,096, thus increasing the Commission's investment liability in ALC by the same amount.

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 of Prince Edward Island as shown on the statement of changes in shareholder deficiency. Other transactions with the Province of Prince Edward Island and 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 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>2014</u> \$	<u>2013</u> \$
Gross profit	11,606,333	14,212,602	13,221,015	2,155,013	41,194,963	40,279,048
Expenses	<u>6,722,279</u>	<u>3,800,895</u>	<u>12,961,006</u>	<u>2,395,624</u>	<u>25,879,804</u>	<u>24,634,417</u>
Net profit	<u>4,884,054</u>	<u>10,411,707</u>	<u>260,009</u>	<u>(240,611)</u>	<u>15,315,159</u>	<u>15,644,631</u>

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15. Related Party Transactions (continued...)

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 \$1,066,281 (2013 - \$822,277) and \$199,845 (2013 - \$176,145) related to employee benefits.

In addition to the transactions above, ALC also made special pension payments during the year of \$7.9 million (2013 - \$7.7 million). The Commission's portion of these special payments will be 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.





