

Prince Edward Island
Lotteries Commission
Annual Report
2010 - 2011

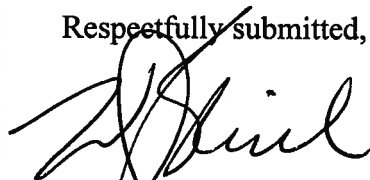


The Honourable H. Frank Lewis
Lieutenant Governor of Prince Edward Island
PO Box 846
Charlottetown, PE C1A 7L9

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, 2011.

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, 2011, the members and officers of the Commission were the Honourable Wesley J. Sheridan, 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, 2005, 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 at Charlottetown and Summerside. The Summerside operations are located at the Summerside Raceway in a facility leased from the City of Summerside. The Atlantic Lottery Corporation completed the transfer of responsibility for harness racing operations at both Summerside and Charlottetown from Harness Racing PEI Inc. during the 2010-2011 year.

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.

Financial Performance

Prince Edward Island's share of revenue generated through the operation of lottery and harness racing programs by the Atlantic Lottery Corporation was \$13,210,648 (2010 - \$15,137,627). Table 1 provides comparative information for Prince Edward Island profits. The lottery revenue received in Fiscal Year 2010-11 represents a 12.7% decrease over the prior year. The decrease is caused largely by a decline in video lottery revenues.

From the funds which the Atlantic Lottery Corporation generates, \$2,100,000 was used in 2011 and \$2,050,000 in 2010 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 \$721,600 (2010 - \$733,700). 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	
	2011	2010
Revenues	\$	\$
Gross Ticket Sales	34,038	32,064
Net Video Lottery Receipts	16,855	18,177
Red Shores	14,631	13,237
Prizes on Ticket Sales	<u>(19,535)</u>	<u>(18,726)</u>
Net Revenues	<u>45,989</u>	<u>44,752</u>
Direct Expenses		
<u>Commissions</u>		
Tickets	2,413	2,311
Video Lottery	<u>3,229</u>	<u>3,799</u>
Total Commissions	5,642	6,110
<u>Other</u>		
Tickets	832	759
Video Lottery	284	288
Red Shores	<u>1,204</u>	<u>834</u>
Total Direct Expenses	<u>7,962</u>	<u>7,991</u>
Gross Profit	<u>38,027</u>	<u>36,761</u>
Expenses		
Operating		
Tickets	7,338	6,480
Video Lottery	2,562	2,220
Red Shores	<u>12,739</u>	<u>11,320</u>
Total Operating	22,639	20,020
Red Shores - Interest	832	831
Other		
Tickets	882	471
Video Lottery	<u>463</u>	<u>302</u>
Total Expenses	<u>24,816</u>	<u>21,624</u>
Net Profit	<u>\$13,211</u>	<u>\$15,137</u>
Profit Distribution		
Tickets	3,038	3,317
Video Lottery	10,317	11,568
Red Shores	<u>(144)</u>	<u>252</u>
	<u>\$13,211</u>	<u>\$15,137</u>

Appendix
Audited Financial Statements
2010 - 2011

AUDITOR GENERAL

**CHARLOTTETOWN
PRINCE EDWARD ISLAND**

PRINCE EDWARD ISLAND

LOTTERIES COMMISSION

FINANCIAL STATEMENTS

MARCH 31, 2011

AUDITOR GENERAL

CHARLOTTETOWN
PRINCE EDWARD ISLAND

AUDITOR'S REPORT

To the Members of the
Prince Edward Island Lotteries Commission

I have audited the financial statements of the **Prince Edward Island Lotteries Commission**, which comprise the balance sheet as at March 31, 2011, and the statement of income and retained earnings 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 Canadian generally accepted accounting principles for the private sector 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

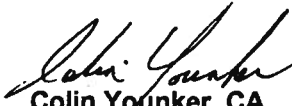
My responsibility is to express an opinion on these financial statements based on my audit. I conducted the audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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, 2011, and its financial performance and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles for the private sector.


Colin Younker, CA
Auditor General

Charlottetown, Prince Edward Island
June 30, 2011

**PRINCE EDWARD ISLAND
 LOTTERIES COMMISSION
 BALANCE SHEET
 MARCH 31, 2011**

	<u>2011</u> \$	<u>2010</u> \$
ASSETS		
Current Assets		
Accounts Receivable: (Note 7) Province of Prince Edward Island	<u>573,009</u>	<u>508,533</u>
Investment in Atlantic Lottery Corporation Inc.	100	100
Investment in Interprovincial Lottery Corporation	<u>1</u>	<u>1</u>
	<u>101</u>	<u>101</u>
Total Assets	<u><u>573,110</u></u>	<u><u>508,634</u></u>
 LIABILITIES AND CONTRIBUTED SURPLUS		
Current Liabilities		
Accounts Payable:		
Atlantic Lottery Corporation Inc.	471,509	408,533
City of Charlottetown	100,000	100,000
Other	<u>1,500</u>	<u>-</u>
	<u>573,009</u>	<u>508,533</u>
 Contributed Surplus (Note 3)	 <u>101</u>	 <u>101</u>
Total Liabilities and Contributed Surplus	<u><u>573,110</u></u>	<u><u>508,634</u></u>

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

APPROVED ON BEHALF OF THE COMMISSION:

Commissioner:  _____

Commissioner:  _____

**PRINCE EDWARD ISLAND
 LOTTERIES COMMISSION
 STATEMENT OF INCOME AND RETAINED EARNINGS
 YEAR ENDED MARCH 31, 2011**

	<u>2011</u>	<u>2010</u>
	\$	\$
Revenues		
Distributions of Atlantic Lottery Corporation Inc. net profit: (Note 11)		
Lottery ticket sales	3,038,327	3,316,214
Video lottery sales	10,317,067	11,568,907
Entertainment centres net profit (loss):		
Red Shores Racetrack & Casino at Charlottetown		
Driving Park	(103,101)	408,819
Red Shores at Summerside Raceway	<u>(41,645)</u>	<u>(156,313)</u>
	<u>13,210,648</u>	<u>15,137,627</u>
Expenses		
Financial assistance to the harness racing industry (Note 6)	3,310,470	3,149,350
Grant to the City of Charlottetown (Note 8)	400,000	400,000
Responsible Gaming Strategy (Note 9)	140,880	469,435
Grant to Canada Games	-	600,000
Bad debt expense (Note 7)	-	21,090
Professional services	<u>27,560</u>	<u>7,190</u>
	<u>3,878,910</u>	<u>4,647,065</u>
Excess of revenues over expenses	9,331,738	10,490,562
Retained earnings, beginning of year	-	-
Distributions to the Province of Prince Edward Island	<u>9,331,738</u>	<u>10,490,562</u>
Retained earnings, 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, 2011**

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. ALC is jointly owned by the four Atlantic Provinces or their lottery agency and is responsible to develop, organize, undertake, conduct and manage lotteries in Atlantic Canada. ALC also markets and handles regionally the products of the Interprovincial Lottery Corporation (ILC), which is jointly owned by the ten Canadian provinces. Net profits 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 tangible 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 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*.

2. Summary of Significant Accounting Policies

Basis of Accounting

These financial statements are prepared on a going concern basis in accordance with Canadian generally accepted accounting principles for the private sector. The following is a summary of the significant accounting policies used in the preparation of these 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) Investments

Investments are carried at cost.

**PRINCE EDWARD ISLAND
LOTTERIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2011**

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

c) 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.

d) Use of Estimates and Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting standards for the private sector requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the period. Items requiring the use of significant estimates include provisions for doubtful accounts and amounts recorded in ALC such as the useful life of capital assets, accrued liabilities, employee future benefits and liabilities for unclaimed prizes which impact the net distribution to the Commission.

e) Future Accounting Pronouncements

International Financial Reporting Standards (IFRS)

All publicly accountable enterprises will be required to apply IFRS, in full and without modification, on fiscal years beginning on or after January 1, 2011. The Commission will adopt IFRS beginning April 1, 2011, with restatement, for comparative purposes, of amounts reported for the year ended March 31, 2011, and of the opening balance sheet as at April 1, 2010.

The Commission is currently assessing the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and operating results is not reasonably determinable or estimable. The Commission is continuing to assess the level of disclosure required with the adoption of IFRS, as well as operational changes that may be necessary to gather and process the information.

3. Contributed Surplus

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

**PRINCE EDWARD ISLAND
 LOTTERIES COMMISSION
 NOTES TO FINANCIAL STATEMENTS
 MARCH 31, 2011**

4. Financial Instruments

All financial instruments reported on the Commission's balance sheet are classified as follows:

Accounts receivable	Loans and receivables
Accounts payable	Other liabilities

Due to their short-term nature, all financial instruments are considered to be carried at amounts which approximate their fair value. The Commission has adopted a policy of recognizing all transaction costs in net income.

5. Gaming Entertainment Centres

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 \$18,056,544 as at March 31, 2011, (2010 - \$19,649,714).

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 \$2,862,383 as at March 31, 2011 (2010 - \$3,301,708). This amount includes leasehold improvements of \$1,548,723 (2010 - \$1,863,592), but does not include any amount for future lease payments. ALC's consolidated financial statements reports 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 \$4,479,822.

ALC is recovering its debt amortization costs through depreciation charges which, along with the Summerside centre lease charges, are included in the costs 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.

6. Financial Assistance to the Harness Racing Industry

Financial assistance to the harness racing industry provided through the Commission consists of the following:

	<u>2011</u>	<u>2010</u>
	\$	\$
Assistance to PEI Harness Racing Industry Association	2,100,000	2,050,000
Assistance to Harness Racing PEI Inc.	370,000	250,000
Funding to Maritime Provinces Harness Racing Commission	111,207	111,656
Grants - sales taxes due from pari-mutuel wagering	721,563	733,694
Other	<u>7,700</u>	<u>4,000</u>
	<u>3,310,470</u>	<u>3,149,350</u>

**PRINCE EDWARD ISLAND
 LOTTERIES COMMISSION
 NOTES TO FINANCIAL STATEMENTS
 MARCH 31, 2011**

6. Financial Assistance to the Harness Racing Industry (continued...)

Harness Racing PEI Inc. (HRPEI) is a Crown corporation mandated to promote and operate the business operations associated with pari-mutuel wagering at harness racing tracks located in Charlottetown and Summerside. A Memorandum of Understanding between the Province of Prince Edward Island and the Prince County Horsemen's Club resulted in the transfer of operating responsibility for the Summerside racetrack to HRPEI starting in the 2008 racing season. On November 1, 2010, Atlantic Lottery Corporation assumed operations of Red Shores which were previously the responsibility of Harness Racing PEI Inc.

7. Accounts Receivable

The Commission has recorded a receivable for advances totalling \$344,179 to HRPEI as at March 31, 2011, (2010 - \$344,179). Management has also recorded an offsetting provision for the entire amount.

8. 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.

9. 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 Responsible Gaming Strategy costs incurred by the Commission:

	<u>2011</u>	<u>2010</u>
	\$	\$
Compensation payments to former video lottery terminal siteholders	-	400,554
Gaming strategy project officer service contract	46,900	47,090
Activities carried out by Department of Health	87,201	14,300
Other	<u>6,779</u>	<u>7,491</u>
	<u>140,880</u>	<u>469,435</u>

**PRINCE EDWARD ISLAND
 LOTTERIES COMMISSION
 NOTES TO FINANCIAL STATEMENTS
 MARCH 31, 2011**

10. Commitments and Contingencies

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

At March 31, 2011, there are outstanding legal claims against the Commission. These claims are administered, negotiated and settled by the Risk Management and Insurance section of the Department of Finance and Municipal Affairs. Costs, if any, related to these claims are paid out of the Self-Insurance and Risk Management Fund and are not reflected in these financial statements.

11. 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 Income and Retained Earnings.

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

The following is a summary of operations conducted by ALC on behalf of the Commission. Net profits are 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>2011</u> \$	<u>2010</u> \$
Gross Profit	11,258,055	13,341,858	11,302,154	2,125,069	38,027,136	36,761,996
Expenses	<u>8,219,728</u>	<u>3,024,791</u>	<u>11,405,255</u>	<u>2,166,714</u>	<u>24,816,488</u>	<u>21,624,369</u>
Net Profit	<u>3,038,327</u>	<u>10,317,067</u>	<u>(103,101)</u>	<u>(41,645)</u>	<u>13,210,648</u>	<u>15,137,627</u>

12. Subsequent Events

The Commission has authorized Atlantic Lotteries Commission (ALC) to invest in a gaming entity. Currently, the Commission's investment is \$2 million of which 50 percent is in the form of a repayable note. Responsibility for, and benefits from, the investment accrue to investors.

13. Statement of Cash Flow

A statement of cash flow has not been prepared as the required cash flow information is readily apparent from the other information included in these financial statements.