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*Everybody's
got a dream*

Atlantic Lottery Corporation
La Société des loteries de l'Atlantique

HOWARD ROSS LIBRARY
MANAGEMENT
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*The Atlantic Lottery
Corporation Inc.*

1990-1991 Annual Review

*The Atlantic Lottery Corporation
Board of Directors 1990-91*

Chairman

Douglas T. Tobin

Deputy Minister, Management Board
Government of Nova Scotia
Halifax, NS

Vice-Chairman

Lewis White

Secretary to the Treasury Board
Executive Council, Government of
Newfoundland and Labrador
St. John's, NFLD

Secretary

W. Philip MacDougall

Deputy Minister, Department of Finance
Government of Prince Edward Island
Charlottetown, PEI

Directors

Douglas B. Boylan

Clerk of the Legislative Assembly
Government of Prince Edward Island
Charlottetown, PEI

Gilbert Gill

Deputy Minister, Department of Finance
Government of Newfoundland and
Labrador
St. John's, NFLD

Ian MacBain

Lotteries Commission of New Brunswick
Government of New Brunswick
Fredericton, NB

Ernest MacKinnon

Deputy Minister, Management Board
Government of New Brunswick
Fredericton, NB

Louis Stephen

Deputy Minister, Department of Housing
Government of Nova Scotia
Halifax, NS

Financial Highlights 1990-91

(stated in thousands of dollars)

	1990-91	1989-90	1988-89	1987-88	1986-87
Sales	268,612	227,925	230,895	211,984	197,117
Retailer Commissions	24,709	13,549	12,678	11,825	10,941
Prizes	131,376	109,362	107,228	98,066	90,687
Net Operating Expenses	35,460	35,231	36,064	32,291	29,759
Payment to Government of Canada	3,249	3,112	2,923	5,123	5,065
Profit for distribution to the Atlantic Provinces	73,818	66,671	72,002	64,679	60,665
Number of Games	10	9	8	8	8

*From the Chairman and General
Manager - 1990-91 Annual Review*

The 1990-91 fiscal year has been one of record sales and expanding markets for Atlantic Loto.

Total lottery sales reached \$268.6 million, marking an increase of \$40.7 million over last year. This increase can be credited to two factors: the introduction of Video Lottery and the increasing popularity of Breakopen games.

In the span of just four months, Video Lottery in New Brunswick and Newfoundland generated net revenue of just over \$10.1 million. This was also the first fiscal year for full distribution of Breakopen games throughout Atlantic Canada. The enormous popularity of Breakopen, especially in Newfoundland, accounted for sales of \$59.3 million. That figure represents an increase of approximately \$39 million over last year.

Approximately \$73.8 million in profit was returned to the provincial governments of New Brunswick, Newfoundland and Labrador, Nova Scotia and Prince Edward Island, representing an increase of \$7.1 million over last year.

The 4,700 lottery and Video Lottery retailers who provide that important link between Atlantic Loto and our players received commissions totalling \$24.7 million. This increase from \$13.5 million last year is largely due to Video Lottery commissions, and to the commissions from the sale of Breakopen tickets.

Scratch 'n Win ticket sales have decreased this year to \$56.4 million as our Breakopen product has gained a market share in this game category.

In addition to Video Lottery, another first was introduced this year by Atlantic Loto — the on-line promotion system.

This system provides an efficient means of offering promotions to our players by producing coupons that are attached to on-line tickets. The great flexibility of the system allows many marketing opportunities, all of which can be implemented quickly, to one on-line retail location or 2,000.

Frequent Jackpot rollovers and a record-setting Jackpot of almost \$20 million in October made Lotto 6/49 the attention-getter this year. The one-week sales period leading to the record Jackpot on October 27 saw a new sales record set as Atlantic Canadians rushed to get their share of the prizes.

During fiscal year 1990-91, eight Lotto 6/49 Jackpot prizes were won by Atlantic Canadians, and the total amount expended in prizes for all games exceeded \$131 million in Atlantic Canada.

The federal government's Goods and Services Tax became effective on January 1, 1991, and lottery products are among the items to which the GST applies. Previous experiences in Canada have shown that a tax on lottery products is unpopular with players and inconvenient for retailers. Atlantic Loto has moved to absorb the GST, thereby ensuring that the price of tickets and the prizes paid to winners are not affected.

In February, the Canada Winter Games were hosted by Prince Edward Island. Atlantic Loto was pleased to continue its support of this event. For seven years Canada Games athletes have received sportsbags from Atlantic Loto, and this year, 1,200 were given to the athletes from Atlantic Canada.

With the popularity of our Breakopen product contributing to record sales, and the introduction of Video Lottery, fiscal year 1990-91 has been a positive launch into the new decade for Atlantic Loto.

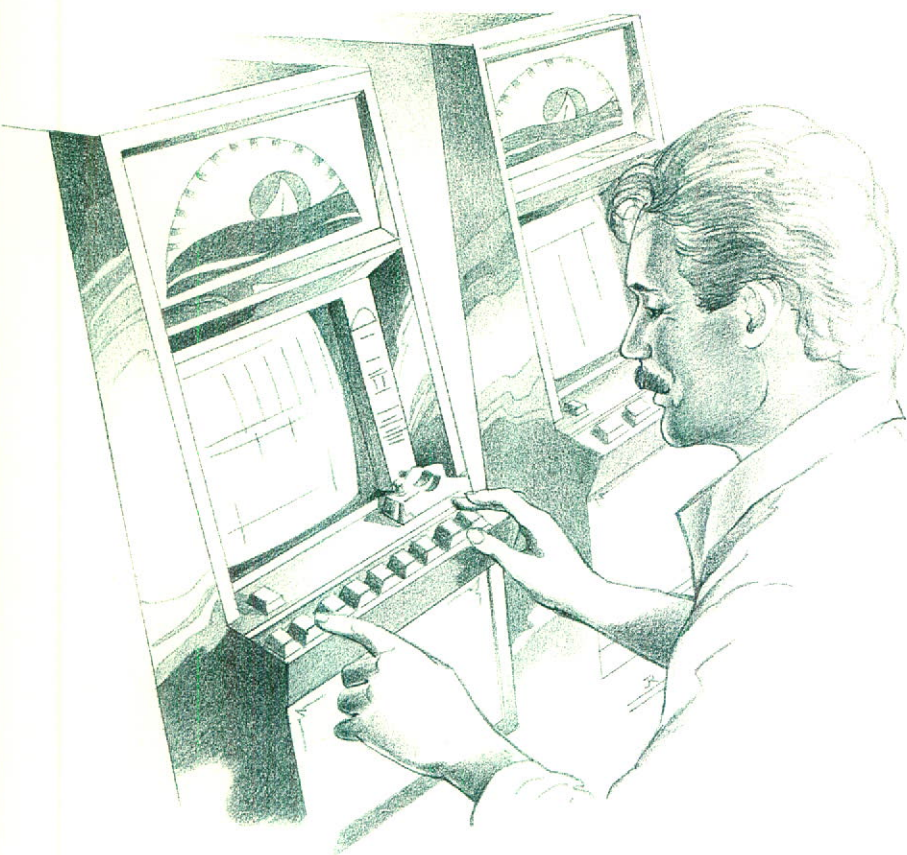


Douglas T. Tobin
Chairman



Cluny Macpherson
General Manager

Video Lottery



Fiscal year 1990-91 marked the implementation by Atlantic Loto of a multi-province Video Lottery system — the first of its kind in Canada.

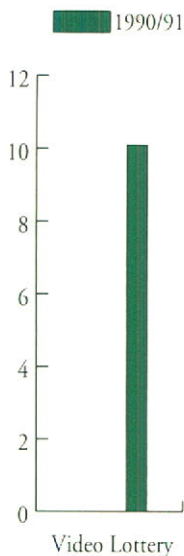
In the provincial budget, which was presented in March of 1990, the New Brunswick government announced its intention to regulate video gaming. A news release giving details of the plan followed in August of 1990, and the first video lottery terminal (VLT) was in place on December 1 of that year.

Ongoing consideration by the government of Newfoundland and Labrador resulted in a decision in November to regulate video gaming. The first VLT was installed in that province on December 27, 1990.

And on February 14, 1991, the Nova Scotia government announced its plans to proceed with a Video Lottery system administered by Atlantic Loto.

By March 31, 1991, four months after the first VLT was installed in Atlantic Canada, net revenue from Video Lottery totalled over \$10.1 million for New Brunswick and Newfoundland.

On April 9, 1991, the government of Prince Edward Island also announced that it will regulate video gaming, thus establishing a commitment by all provinces in Atlantic Canada to proceed with a Video Lottery program.

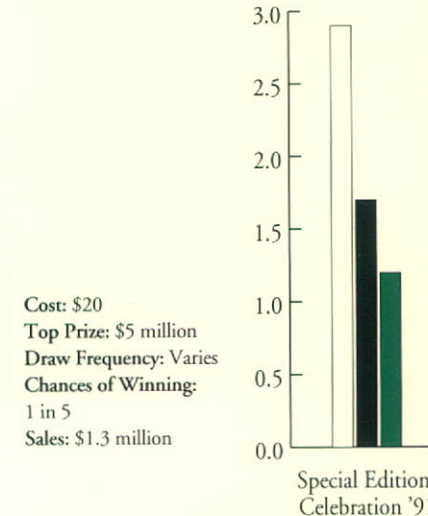
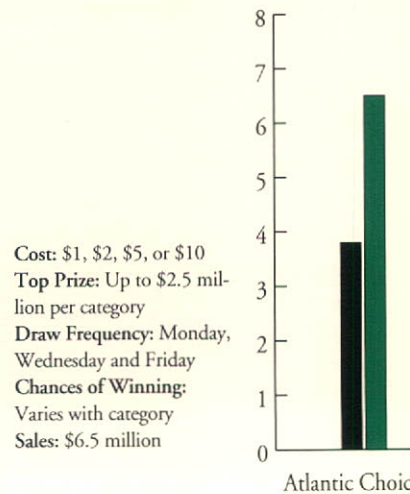
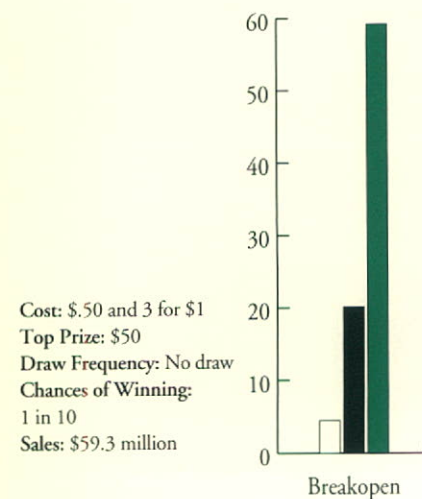
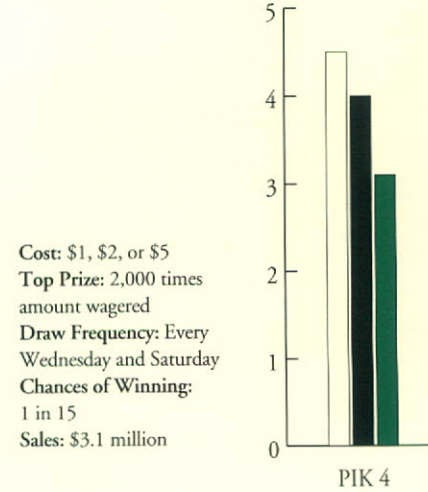
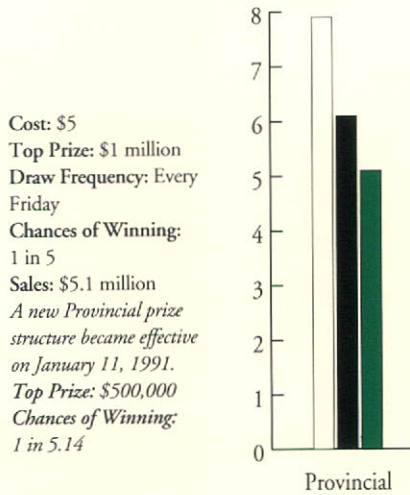
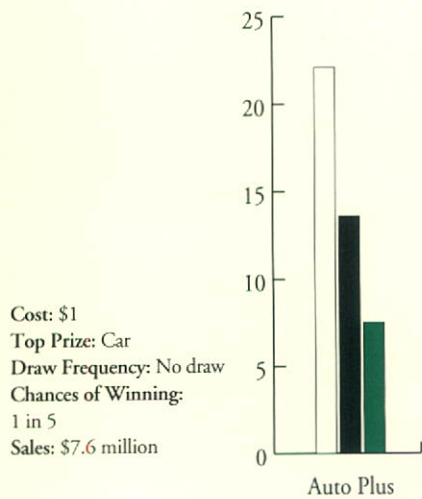
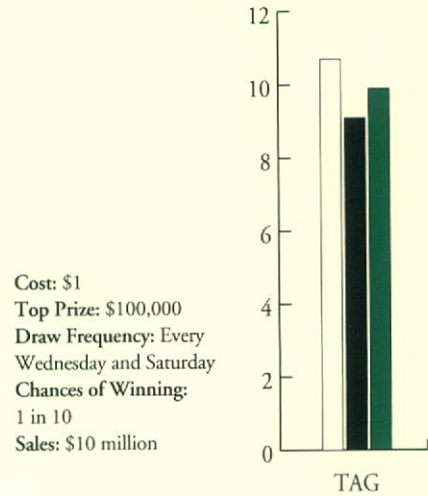
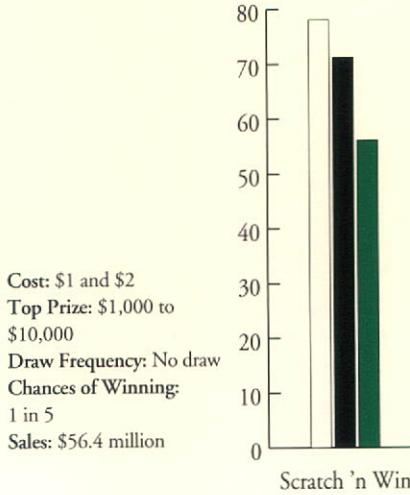
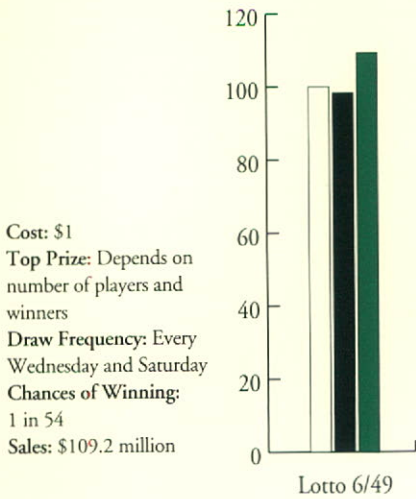


Cost: \$.25, \$.10, \$.05
 Top Prize: \$500 per wager
 Draw Frequency: No draw
 Chances of Winning:
 Varies
 Sales: \$10.1 million
 For New Brunswick and
 Newfoundland only, as of
 March 31, 1991.

Game Descriptions 1990-91

(chart figures stated in millions of dollars)

1988/89 1989/90 1990/91



**Auditors' Report
to the Shareholders**



We have audited the balance sheet of the Atlantic Lottery Corporation Inc. as at March 31, 1991 and the statements of operations and allocation of profit and changes in financial position for the year then ended.

These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1991 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peat Marwick Hamel
Chartered Accountants

Moncton, Canada
June 11, 1991

Balance Sheet

March 31, 1991, with comparative figures for 1990

(stated in thousands of dollars)

	1991	1990
Assets		
Cash	\$ 17,110	14,482
Accounts receivable	3,856	2,926
Prepaid expense	3,871	2,843
Fixed assets (note 2)	12,108	11,016
	<u>\$ 36,945</u>	<u>31,267</u>
Liabilities and Shareholders' Equity		
Accounts payable and accrued liabilities	\$ 6,785	5,014
Deferred revenue	905	603
Liabilities for unclaimed prizes	14,170	12,618
Due to the Atlantic Provinces:		
Net income to be distributed	7,459	5,022
Advances	1,441	1,057
Term bank loan (note 3)	6,185	6,953
Share capital (note 4)	—	—
Significant new business (note 8)		
	<u>\$ 36,945</u>	<u>31,267</u>

See accompanying notes to financial statements.

On behalf of the Board:

S. J. Sobin

Director

A. P. MacDargall

Director

Statement of Operations and Allocation of Profit

Year ended March 31, 1991, with comparative figures for 1990

(stated in thousands of dollars)

	1991	1990
Sales		
Gross ticket sales	\$ 258,476	\$ 227,925
Net video lottery receipts	10,136	—
	268,612	227,925
Direct Expenses		
Prizes on ticket sales	131,376	109,362
Commissions (wholesale and retail)	24,113	13,064
Ticket printing	6,815	7,918
	162,304	130,344
Gross Profit	106,308	97,581
Operating Expenses		
Marketing and sales	10,522	10,809
Administration	5,420	5,295
Information systems	8,189	7,084
Depreciation	5,256	5,350
	29,387	28,538
Operating Profit	76,921	69,043
Interest and other income	1,691	1,225
Profit before undernoted items	78,612	70,268
Less: Payment to the		
Government of Canada (note 5)	3,249	3,112
Goods and Services Tax (note 6)	949	—
Special commission to non-profit organizations (note 7)	596	485
	4,794	3,597
Profit for distribution to the Atlantic Provinces	\$ 73,818	\$ 66,671
Allocation of profit		
Lotteries Commission of New Brunswick	\$ 21,819	\$ 20,019
Province of Newfoundland	21,428	15,785
Nova Scotia Lottery Commission	27,448	27,577
Prince Edward Island Lotteries Commission	3,123	3,290
	\$ 73,818	\$ 66,671

*See accompanying notes to financial statements.***Management Responsibilities for Financial Reporting**

The financial statements presented in this Annual Report are the responsibility of the Management of the Atlantic Lottery Corporation Inc. They have been approved by its Board of Directors.

Management prepared the financial statements in accordance with generally accepted accounting principles in Canada. The financial information contained in the Annual Report is consistent with the data presented in the financial statements.

The Atlantic Lottery Corporation Inc. maintains books of account, systems of information, systems of financial and management control, as well as a comprehensive internal audit program which provide reasonable assurance that accurate financial information is available, that assets are protected, that resources are managed efficiently, and that transactions are conducted in accordance with relevant statutes, the regulations and rules made thereunder, and the articles and By-Laws of the Corporation.

The Board of Directors oversees internal audit activities through its audit committee. The committee reviews matters related to accounting, auditing, internal control systems, and the financial statements and annual report of the independent external auditors.



Douglas Milton
Director, Finance and Administration



Cluny Macpherson
General Manager

Statement of Changes in Financial Position

Year ended March 31, 1991, with comparative figures for 1990

(stated in thousands of dollars)

Cash provided by (used in)	1991	1990
Operations:		
Profit for distribution to the Atlantic Provinces	\$ 73,818	\$ 66,671
Depreciation, which does not involve cash	5,256	5,350
Net changes in non-liquid short-term assets and liabilities	4,104	(1,911)
	83,178	70,110
Financing:		
Long-term debt, net of repayments	(768)	(4,166)
Due to the Atlantic Provinces	384	(15)
	(384)	(4,181)
Investments:		
Purchase of fixed assets (net)	(6,348)	(1,730)
Distribution to the Atlantic Provinces	(73,818)	(66,671)
Increase (decrease) in cash	2,628	(2,472)
Cash, beginning of year	14,482	16,954
Cash, end of year	\$ 17,110	\$ 14,482

See accompanying notes to financial statements.

Notes to Financial Statements

Year ended March 31, 1991

(stated in thousands of dollars)

The Atlantic Lottery Corporation Inc. was incorporated under the Canada Business Corporations Act on September 3, 1976. The Governments of the Provinces of New Brunswick, Newfoundland, Nova Scotia and Prince Edward Island or their agencies are shareholders in the Corporation.

The Corporation is responsible to develop, organize, undertake, conduct and manage lotteries in Atlantic Canada. The Corporation is also the Regional Marketing Organization for the Provincial, Premium Game and Lotto 6/49 national lottery games, which are joint undertakings by the Provinces of Canada acting through the Interprovincial Lottery Corporation, a company whose shares are held by Her Majesty the Queen in right of the Provinces.

1. Significant accounting policies:*(a) Capital expenditures:*

The Corporation capitalizes any major purchase which has a useful life beyond the current year and which will materially affect net income in the current year. Assets are recorded at their original cost and are depreciated on a straight-line basis according to their estimated useful life using the following rates:

Asset	Rate
Automotive	33.33%
Draw equipment	10%
Building, computer equipment & leasehold improvements	20%
Furniture & equipment	20% & 10%

(b) Revenues and expenses:

The recognition of lottery sales revenue and the corresponding direct expenses for all draw games is at the date of the draw. Receipts for lottery tickets sold before March 31 for draws held subsequent to that date are recorded as

deferred revenue. The related costs of ticket printing and retailer commissions are recorded as prepaid expenses.

For all other lotteries, the recognition of lottery sales revenue and the corresponding direct expenses is at the time of sale to the consumer.

(c) Prizes paid:

In addition to cash prizes, the Corporation also awards free tickets. The value ascribed to these prizes is equal to the sale price and is recorded in sales as income and in prizes as an expense.

(d) Unclaimed prizes:

All unclaimed prizes from regional lottery games are retained in a prize fund for one year from the announced beginning date of the draw. Unclaimed prizes remaining after the one-year claiming period are transferred to a special prize fund to be used for prizes in subsequent draws. Prizes of the national lottery games are funded directly by the Interprovincial Lottery Corporation with the exception of prizes for certain free tickets, which are paid out of general funds as incurred.

(e) Distribution of profit:

The profit of the Corporation, after provisions for prizes and the payment of all operating and other expenses, is distributed to the agencies of the four Atlantic Provinces. The distribution to each province is based on the percentage of ticket sales in that province.

(f) Net video lottery receipts:

Video lottery receipts are recorded net of credits paid out.

2. Fixed assets:

			1991	1990
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 100	\$ -	\$ 100	\$ 100
Building	2,357	2,356	1	1
Automotive	1,335	292	1,043	661
Furniture & equipment	1,169	1,004	165	252
Computer equipment	29,577	20,950	8,627	9,958
Leasehold improvements	191	59	132	44
Equipment in process - video lottery	2,040	-	2,040	-
	\$ 36,769	\$ 24,661	\$ 12,108	\$ 11,016

3. Term bank loan:

As at March 31, 1991, the loan amounted to \$6,185 (March 31, 1990 - \$6,953). The loan is unsecured and bears interest at the prime bank rate, to the extent that the amount of the loan exceeds operating funds on deposit with the bank.

The loan is payable as follows: 1992-\$2,410; 1993-\$1860; 1994-\$715; 1995-\$600; and 1996-\$600.

4. Share capital:

Authorized and issued on incorporation is one common share to each of the provinces or their agencies for cash consideration of one hundred dollars per share.

5. Payments to the Government of Canada:

Under Federal/Provincial agreements, the Government of Canada agreed to withdraw from the sale of lottery tickets and to refrain from re-entering the field of gaming and betting. In consideration the provinces are paying \$24 million annually, in 1979 dollars, adjusted by the consumer price index each year. The amount for the current year was \$45.3 million.

The Corporation, as the Regional Marketing Organization of the

Interprovincial Lottery Corporation, remits its member provinces' share of the above payments to the Interprovincial Lottery Corporation. The payment is included in the Statement of Operations and Allocation of Profit as a deduction from profit.

6. Goods and Services Tax:

Effective January 1, 1991, lottery products are GST taxable. The decision was made to sell lottery products GST included and absorb the cost. In addition to the GST paid by the Corporation, GST paid on goods and services purchased is not recoverable and is recorded with the cost to which it relates.

7. Special commission to non-profit organizations:

Special commissions are paid by the Corporation directly to non-profit organizations selling breakopen tickets in the Provinces of Nova Scotia, Prince Edward Island and Newfoundland.

8. Significant new business:

In December 1990, the Corporation launched a Video Lottery program in the Provinces of New Brunswick and Newfoundland. Subsequent to year end, Nova Scotia launched a Video Lottery program and Prince Edward Island plans to follow.



