

ANNUAL REPORT

FOR THE YEAR ENDED MARCH 31, 2000





GAMING AND LIQUOR
COMMISSION

*Additional copies of this annual report
may be obtained from:*

Communications

Alberta Gaming and Liquor Commission

50 Corriveau Avenue

St. Albert, Alberta T8N 3T5

Telephone (780) 447-8740

Fax (780) 447-8931

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Alberta Gaming and Liquor Commission
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 Printed in Alberta on Recycled Paper

CONTENTS

Message from the Chairman and CEO	1
Organizational Profile	4
Organization Chart	5
Operational Overview	6
Five-Year Financial Summary	7
Liquor Operations	8
Gaming Operations	11
Beneficiaries of Gaming Revenue	15
Stakeholders	17
Social Responsibility	19
Compliance	20
Financial Statements	
Auditor's Report.....	23
Balance Sheet	24
Statement of Net Income.....	25
Statement of Cash Flow	26
Notes to the Financial Statements	27
Video Lottery and Casino Gaming Terminal Operations.....	36
Ticket Lottery Operations.....	37
Alberta Lottery Fund Commitments	38

MESSAGE FROM THE CHAIRMAN AND CEO

It is my pleasure to report that it's been a busy and rewarding year for the Board of the Alberta Gaming and Liquor Commission, and another successful year for the Corporation. We have undertaken a number of major initiatives and have worked very closely with stakeholders and the public to bring these initiatives to a resolution. The open and transparent communications between the Commission, its stakeholders and the public in dealing with these initiatives has been a major factor in this success. I would also like to thank the employees of the Corporation and the members of the Board of the Commission for their contribution to the successes achieved this year.

Activities of the Board

The Board of the Commission establishes policies for the Corporation, oversees the operation of the Corporation, and makes decisions and conducts hearings into matters respecting gaming and liquor licences and registrations. The Board meets biweekly throughout the year.

In 1999-2000 the Board played an active role in policy and planning matters, as well as discharging its responsibilities relating to the overall operations of the Corporation.

During the year, the Board undertook to review the issues related to exclusivity agreements among liquor industry stakeholders. This review resulted in the Board adopting a new policy to allow liquor suppliers or agencies to enter into product promotion agreements with licensees. The Commission and industry recognized that the previous policy had been too restrictive and failed to allow for accepted business practices within the industry. As a result, the Board adopted new policies that allow buy/sell agreements among licensees and agents or suppliers.

Two members of the Board serve on the Board of the Western Canada Lottery Corporation. The Western Canada Lottery Corporation is a partnership between Alberta, Saskatchewan and Manitoba, and is responsible for the marketing of ticket lottery products across the three Prairie Provinces. Membership in this partnership is a critical component of our lottery program. We were pleased that Dr. Robert Westbury was appointed chair of the Western Canada Lottery Corporation's board for the 2000-01 year.

The AGLC Board received a report from the Alberta Bingo Industry Review Committee in September 1999. The report contained 74 policy recommendations in response to various issues raised by stakeholders within and outside that industry. The Board is expected to forward the committee's report and the Board's analysis of the recommendations to government in 2000-01.

The Board held 63 disciplinary hearings in 1999-2000. These hearings dealt with alleged violations of the *Gaming and Liquor Act*, Regulation or Board policy requirements for liquor and gaming activities. All Board disciplinary decisions are now posted on the Commission's website.

In the summer of 1999 the Board created an Audit Committee comprising three board members whose purpose was to focus upon and review the financial performance of the Corporation. The Audit Committee offers a valuable internal control process for management, one that will supplement the regular external annual reviews of Commission operations conducted by the Auditor General and preview the Commission's regular reporting to Treasury.

The Board also spent considerable time during the year examining its governance model and processes. It is in the process of producing a Board Governance Handbook to help streamline its operations.

(Con't)

Corporate Activities

The Corporation conducts and manages electronic gaming and ticket lotteries in the province. It also oversees all charitable gaming activities, collects the mark-up on liquor products and regulates gaming and liquor activities in the province.

Gaming activities generated funds to support charitable, not-for-profit, public and community-based initiatives. All gaming revenues earned by the Corporation are placed directly into the Alberta Lottery Fund. The Alberta Lottery Fund - which comprises revenue from ticket lotteries, slot machines and video lottery terminals (VLTs) - earned \$863.8 million in fiscal 2000, surpassing the budgeted revenue of \$769.5 million. Approximately 8,000 community-based and not-for-profit initiatives benefit from the Alberta Lottery Fund each year.

In addition to the gaming revenues placed directly in the Alberta Lottery Fund, Alberta's charitable organizations also earned \$163 million from charitable gaming (bingos, casinos, pull-tickets and raffles), surpassing last year's revenues of \$148 million.

The Commission has initiated a review of gaming licensing policies to address future changes and growth in Alberta's gaming industry. The review was in response to ongoing interest from charities, the gaming industry and others in the growth or expansion of gaming, including interest expressed by First Nations in new casinos; expanding current casinos; adding new games (e.g., keno and electronic bingo); and in new gaming environments such as gaming rooms. The objective of the review is to recommend current, comprehensive and specific policies to guide the Commission in the development of future licensing procedures.

The development of these licensing policies will involve consultations and collaboration with all stakeholders, including charitable organizations, First Nations, municipalities and members of the gaming industry. While the gaming licensing review is underway, requests to license or approve new casinos, casino expansion, casino relocations, new games and gaming environments have been suspended.

Bill 36, the *Gaming and Liquor Amendment Act*, was introduced in Spring 1999 and passed in April 1999. This legislation addresses the concern that the Commission, based on a court decision, was unauthorized to follow or consider government policy regarding the 1998 VLT plebiscite votes held during the general municipal elections. The legislation authorizes the Commission's Board to receive policy direction from the Minister of Gaming. The Court of Queen's Bench of Alberta granted an interim injunction prohibiting the Commission from disabling or removing VLTs pending the hearings of a constitutional challenge of the legislation. The Commission has complied with the court order.

The Commission is in the process of reviewing its policies and procedures regarding the operation of Racing Entertainment Centres, which were established as part of the Racing Industry Renewal Initiative. The Commission is examining the current licensing agreements and the payment of commissions to the operators of these Racing Entertainment Centres. Slot machines located in these Racing Entertainment Centres currently operate exclusively under retailer agreements.

(Con't)

Alberta's privatized liquor industry continues to offer increased product selection, improved service and some of the lowest prices for liquor products in Canada. Employment in the liquor industry has more than doubled since privatization of liquor activities was announced in 1993. The number of retail liquor stores has almost tripled. The number of products available to consumers has also increased significantly. In fiscal 2000, the Corporation collected almost \$456 million in liquor mark-up. Since 1995-96, revenue from liquor sales has increased by almost \$24 million or 5.5%. This increase in revenue has occurred even though there has been several reductions in the mark-up on liquor products. It is also worth noting that in 1999 the Commission sold the last building which once housed a government owned and operated liquor store.

Future Challenges

There are a number of challenges facing the Commission. These challenges include recommending to government appropriate gaming licensing policies in response to the gaming licensing policy review initiated this year. The recommendations must be developed with the public interest in mind, balancing the demands and expectations of the gaming industry and those of the community.

The Commission will continue to work to strengthen its relationship with the diverse and wide array of stakeholders, whose contributions are vital to the success of both the gaming and liquor industries.

We look forward to these challenges, and to another successful year in 2000-01.

Eric McGhan
Chairman and Chief Executive Officer

ORGANIZATIONAL PROFILE

The Alberta Gaming and Liquor Commission is an agent of the Government of Alberta and consists of a Board and a Corporation. The Board is responsible for policy and regulatory matters. The Corporation consists of administrative and operational divisions responsible for the day-to-day functioning of the Corporation.

The responsibilities of the Board are set out in section 12 of the *Gaming and Liquor Act* and include:

- ensuring that the powers and duties of the Corporation are appropriately carried out;
- establishing the policies of the Corporation;
- conducting hearings and making decisions respecting licences and registrations; and
- any functions assigned to it under any enactment.

Current members of the Board are:

- Mr. Eric McGhan, Chairman
- Mr. Norman C. Peterson, Board Member and Deputy Chairman
- Mr. Douglas Fulford, Board Member
- Mr. Edward Gaudet, Board Member
- Dr. Robert C. P. Westbury, Board Member

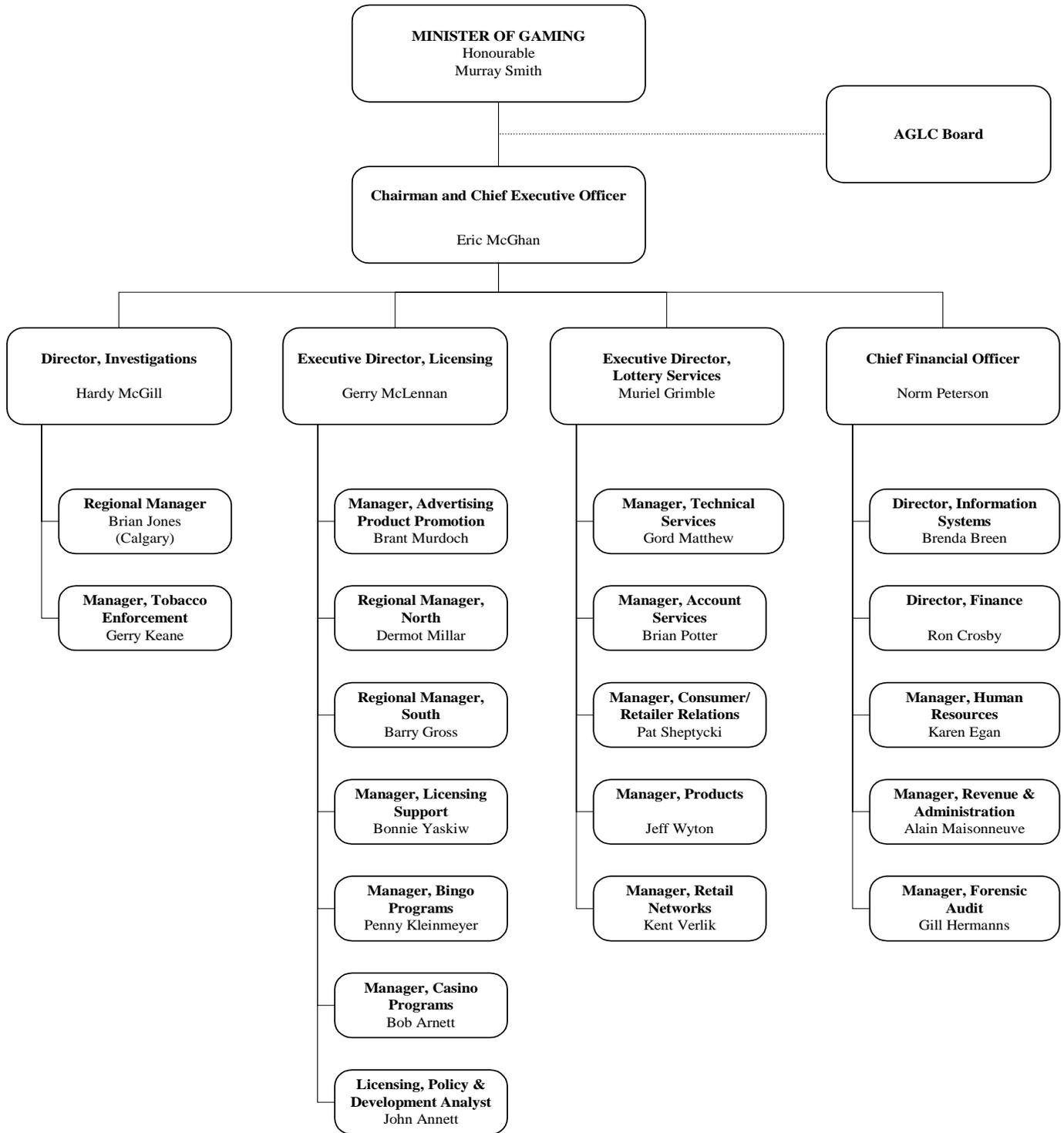
The mission of the Commission is to maintain the integrity of gaming and liquor activities in Alberta and collect revenues for the province.

In accordance with the *Gaming and Liquor Act*, the *Criminal Code of Canada* and within the policy framework established by the provincial government, the Commission's mandate is to:

- license, regulate and monitor gaming and liquor activities in Alberta;
- define operating policies and procedures for gaming and liquor activities;
- ensure integrity in the operation of gaming and liquor activities;
- collect gaming and liquor revenue;
- ensure business and program operations are run efficiently and effectively;
- disburse provincial lottery revenues;
- support industry and government initiatives to address problem gambling and responsible alcohol consumption; and
- communicate to gaming and liquor stakeholders accurate and timely information.

The Commission administers the Alberta Lottery Fund under the provisions of the *Gaming and Liquor Act*.

ORGANIZATION CHART



OPERATIONAL OVERVIEW

Chairman and Chief Executive Officer

Responsible for the overall operations of the Alberta Gaming and Liquor Commission and also serves as Chairman of the Board.

Contact: Eric McGhan
Phone: (780) 447-8601
Fax: (780) 447-8950

Corporate Services

Provides business planning, financial, information technology, warehouse administration, forensic audit, human resources, administration, and records management (including freedom of information and privacy) services.

Contact: Norm Peterson
Phone: (780) 447-8657
Fax: (780) 447-8916

Licensing

Administers the licensing of liquor premises and gaming facilities, charitable gaming and the registration of liquor agencies, liquor representatives, and gaming workers. Inspects licensee premises and facilities in the province and submits incident reports to the Commission Board when violations of legislation or Board policy are alleged to have occurred.

Contact: Gerry McLennan
Phone: (780) 447-8821
Fax: (780) 447-8911

Lottery Services

Provides retailer and consumer services, hotline, account services, retail network planning, product information and maintenance services for all VLTs, slots and ticket lottery terminals.

Contact: Muriel Grimble
Phone: (780) 447-8783
Fax: (780) 447-8929

Investigations

Provides specialized enforcement in areas of liquor, gaming and tobacco. Performs and coordinates criminal investigations, and confirms eligibility for facility licence applicants and gaming suppliers.

Contact: Hardy McGill
Phone: (780) 447-8734
Fax: (780) 447-8914

FIVE-YEAR FINANCIAL SUMMARY

Since 1995-96 the net income of the Commission has grown to almost \$1.3 billion from less than \$1.0 billion. A large part of that increase can be attributed to the introduction of casino gaming terminals (slot machines), which in 1999-2000 generated revenue of \$174 million compared to less than \$2 million in 1995-96. In addition to the increase in revenue attributed to slot machines, income from VLT operations has increased by almost \$100 million from 1995-96.

The Commission exceeded expectations in all its financial measures during the fiscal year. Its operating expenses were less than budget, gross revenues exceeded budget, and the return to charities from charitable gaming events also exceeded last year's level.

A summary of gross sales and profits from operations is as follows:

	2000	1999	1998	1997	1996
	(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)
Gross Sales	<u>12,824.6</u>	<u>11,179.2</u>	<u>10,014.7</u>	<u>8,334.6</u>	<u>7,765.5</u>
Gross Profit					
Liquor	455.9	467.0	449.2	427.7	432.2
VLTs	525.4	507.5	518.2	459.6	426.6
CGTs	174.4	111.9	46.9	17.2	1.4
Tickets	156.0	150.7	140.1	147.2	154.7
Other	14.7	17.8	15.4	12.3	12.3
Operating Expenses	<u>(69.2)</u>	<u>(63.0)</u>	<u>(60.6)</u>	<u>(66.5)</u>	<u>(79.2)</u>
Net Income	<u>1,257.2</u>	<u>1,191.9</u>	<u>1,109.2</u>	<u>997.5</u>	<u>948.0</u>

The Commission is also responsible for licensing and regulating the charitable gaming model in Alberta. The Commission does not earn revenue from charitable gaming events. Other than a small licensing fee set to cover the cost of regulating the industry, all revenue passes directly to the charity to be used in accordance with charitable or religious purposes. A summary of returns to charities under this model is as follows:

	2000	1999	1998	1997	1996
	(\$ millions)				
Charitable Gaming					
Returns to Charities					
Bingo	55	59	58	55	47
Casinos	77	58	44	28	18
Raffle	22	22	19	18	21
Pull Tickets	9	9	9	8	12
	<u>163</u>	<u>148</u>	<u>130</u>	<u>109</u>	<u>98</u>

LIQUOR OPERATIONS

The Commission's responsibilities include regulating the liquor industry, issuing liquor licences, and collecting revenues from the sale of liquor. The private sector is responsible for the commercial operations relating to the retailing, warehousing and distribution of liquor products.

Liquor Licensing Highlights

(\$ in thousands)

Licence Class	Licences in Effect March 31, 2000	Sales 2000					Total	Licences in Effect March 31, 1999	Total
		Spirits	Wine	Coolers & Cider	Beer				
A	5,061	\$ 71,814	\$ 21,981	\$ 7,998	\$ 206,339	\$ 308,132	4,961	\$ 312,611	
B	517	1,000	279	176	6,269	7,724	523	7,857	
C	757	883	1,180	116	8,248	10,427	761	10,980	
D	1,517	323,900	149,710	32,611	379,369	885,590	1,450	848,214	
E	20	-	-	-	-	-	20	-	
*	-	3,178	574	36	197	3,985	36	3,144	
	<u>7,872</u>	<u>\$ 400,775</u>	<u>\$ 173,724</u>	<u>\$ 40,937</u>	<u>\$ 600,422</u>	<u>\$ 1,215,858</u>	<u>7,751</u>	<u>\$ 1,182,806</u>	

*Includes duty free, diplomat, NATO, sales to other Boards and liquor agencies.

Class A licences are issued to hotels and other premises open to the public for the sale and consumption of liquor. Class B licences are issued for the sale and consumption of liquor in premises open to those who have paid an entrance fee, purchased a ticket, or otherwise are entitled to use the facility. Examples include convention centres, race tracks, theatres, and recreational facilities. Class C licences are issued for the sale and consumption of liquor in premises restricted to members or other specific individuals such as private clubs. Class D licences are issued primarily to retail outlets and hotels for the sale of liquor to be consumed off the premises. Class E licences are issued for the manufacture of liquor in Alberta and include licences for brew pubs.

Liquor Products, Retail Network and Mark-up

The number of products available to consumers in Alberta has grown to approximately 8,500 from the approximately 3,300 being sold in the province prior to privatization in 1993. The retail network has continued to expand as 81 new retail liquor stores were licensed during 1999-2000, while only 22 retail liquor store licences were discontinued during that same period. The total number of licensed retail liquor stores has now reached 807. In addition to these retail liquor stores, there are 77 general merchandise liquor store premises licensed in the province and over 500 licences for general off-sales of liquor products.

Overall liquor sales volumes have increased by three percent, which reflects a continued gradual increase in sales volume in all categories. The product mix has also continued to change with more emphasis on the consumption of lower-alcohol products. Profit on liquor sales declined primarily due to a reduction in the mark-up rate on beer and to the changing product mix.

The wholesale price of liquor in Alberta comprises the manufacturer's cost, all applicable federal customs and excise duties, and the Commission mark-up. The Commission retains all revenue from the mark-up and remits these revenues to the province. Liquor revenues totalled \$455.9 million in 1999-2000.

The mark-up rate for the following products were unchanged during the year:

	<u>\$ Per Litre</u>
Spirits (alcohol content greater than or equal to 22.1%)	\$12.50
Spirits (alcohol content less than or equal to 22%)	\$9.50
Wine (alcohol content greater than or equal to 16.1%)	\$5.50
Wine (alcohol content less than or equal to 16%)	\$3.05
Coolers/Ciders	\$1.25

Effective May 1, 1999, the mark-up rate for beer products sold in Alberta, based on annual sales in the province, was reduced from 88 cents per litre to the following:

	<u>\$ Per Litre</u>
First 50,000 hectolitres	0.50
Next 20,000 hectolitres	0.60
Next 30,000 hectolitres	0.75
Over 100,000 hectolitres	0.88

Liquor Sales by Product Type

	<u>2000</u>						<u>1999</u>	
	<u>SALES</u>		<u>VOLUMES</u>		<u>GROSS PROFIT</u>			<u>GROSS PROFIT</u>
	<u>DOMESTIC</u>	<u>IMPORT</u>	<u>DOMESTIC</u>	<u>IMPORT</u>	<u>DOMESTIC</u>	<u>IMPORT</u>	<u>TOTAL</u>	<u>TOTAL</u>
	(\$000)	(\$000)	hectolitres		(\$000)	(\$000)	(\$000)	(\$000)
SPIRITS								
Whiskey	114,959	28,683	54,477	10,491	67,649	12,901	80,550	80,550
Gin	4,443	4,876	2,082	2,140	2,558	2,597	5,155	5,040
Liqueurs	8,303	53,733	3,990	21,966	4,201	23,962	28,163	26,189
Rum	62,054	9,095	29,484	3,965	36,674	4,873	41,547	41,353
Vodka	79,714	8,728	39,733	4,228	49,542	5,188	54,730	55,642
Others	8,874	17,313	4,075	7,849	4,791	7,139	11,930	11,616
	<u>278,347</u>	<u>122,428</u>	<u>133,841</u>	<u>50,639</u>	<u>165,415</u>	<u>56,660</u>	<u>222,075</u>	<u>220,390</u>
WINE	39,671	134,053	52,771	126,400	16,939	39,182	56,121	55,152
COOLERS/CIDERS	37,253	3,684	93,514	7,065	11,658	917	12,575	12,329
BEER								
Packaged*	477,863	50,705	1,554,506	195,803	129,777	11,633	141,410	153,283
Draft	67,173	4,681	318,821	12,591	26,269	669	26,938	29,107
	<u>545,036</u>	<u>55,386</u>	<u>1,873,327</u>	<u>208,394</u>	<u>156,046</u>	<u>12,302</u>	<u>168,348</u>	<u>182,390</u>
	<u>900,307</u>	<u>315,551</u>	<u>2,153,453</u>	<u>392,498</u>	<u>350,058</u>	<u>109,061</u>	459,119	470,261
BEVERAGE CONTAINER AND RECYCLING COSTS							3,249	3,242
							<u>455,870</u>	<u>467,019</u>

*Includes deposit

Warehousing and Distribution

The Board appoints operators to warehouse and distribute liquor products in the province. The Board is also responsible for establishing policies for the warehousing and distribution of these liquor products. At each of the warehouse locations in the province, the Board has cash collection facilities and a warehouse administrator whose main function is to ensure that mark-up is collected on all product sold in the province.

The Commission has authorized five operators, as agents of the Board, to warehouse and distribute liquor products in Alberta. Those warehouse operators include: Connect Logistics who operate a bonded warehouse in St. Albert to warehouse and distribute spirits, wines, coolers, ciders and beer; Brewers Distributor Ltd. who warehouses and distributes beer products for Molson and Labatt breweries from its Edmonton and Calgary warehouses; Big Rock Brewery who manufactures and distributes beer from its plant/warehouse in Calgary; and Sleeman Breweries Ltd. who warehouses and distributes its beer from a Calgary warehouse.

GAMING OPERATIONS

The integrity of gaming in Alberta is paramount to the Commission and all its stakeholders, including beneficiaries of gaming, players, the gaming industry, and the public at large. A critical part of the Commission's responsibility is to maintain the integrity of gaming activities in the province.

The Commission works with stakeholders to ensure games are operated fairly and provide the greatest possible return to beneficiaries and to the many thousands of community projects and initiatives that they operate and fund across the province.

Among its other activities, the Commission:

- licenses eligible charitable organizations to hold gaming events;
- operates a central computerized system for all electronic games across the province;
- collects gaming revenue from lotteries;
- works closely with private retailers in maintaining an efficient lotteries distribution network;
- establishes terms and conditions for gaming operators consistent with legislation and policy requirements;
- regulates gaming activities to ensure compliance; and
- regularly reviews and updates the policies and guidelines for gaming activities in consultation with the stakeholders who are affected by them.

Lotteries Highlights

At March 31, 2000, there were 5,959 video lottery terminals (VLTs) in 1,238 age-controlled licensed premises across Alberta. There were also 3,742 slot machines in 16 charitable casinos and two racing entertainment centres, and 1,990 retail sites in the province that marketed lottery tickets.

A summary of the number of electronic gaming devices, retailers and their location is as follows:

	Number of Video Lottery Terminals	Number of Video Lottery Terminal Locations	Number of Casino Gaming Terminals	Number of Charitable Casinos and Racing Entertainment Centres	Number of Ticket Lottery Terminals	Number of Ticket Lottery Locations
Calgary	1,248	255	1,192	5	544	537
Edmonton	1,205	240	1,143	5	484	475
Other Cities	1,074	204	1,357	7	243	241
Towns	1,655	346	-	-	466	465
Other Rural Communities	777	193	50	1	276	272
	<u>5,959</u>	<u>1,238</u>	<u>3,742</u>	<u>18</u>	<u>2,013</u>	<u>1,990</u>

Video Lottery Operations

The number of VLTs in Alberta are set at a maximum of 6,000.

In 1999-2000 the revenues from VLTs were \$525.3 million, an increase of \$17 million or 3.5% from the previous fiscal year. In this fiscal year, operators of premises with VLTs earned commission of \$94.1 million, compared to \$90.9 in the previous year.

The Lotteries Review Committee recommendations, which were approved by Government in 1995, require that the Commission must phase out VLTs in facilities that have more than one liquor-licensed premise that operate VLTs. At the end of the fiscal year, there were 69 such locations, holding 159 liquor licences and operating 964 VLTs. That compares with 101 locations, which held 225 liquor licences and operated 1,515 VLTs as of October 1995.

During the fiscal year, the Commission, in cooperation with the Alberta Alcohol and Drug Abuse Commission (AADAC), provided 73 training classes to VLT retailers to help them recognize potential problem gamblers.

Casinos and Casino Gaming Terminals

There are currently 16 casinos and two racing entertainment centres in Alberta, with a total of 3,742 slot machines as at March 31, 2000. The Commission received \$174.4 million in revenue from slot machines in the fiscal year, an increase of \$62.6 million from the previous fiscal year. In this fiscal year, casino facility operators earned \$43.4 million in commissions on slot machine revenues, compared to \$28.0 earned in the previous year.

In 1999-2000 casinos continued to upgrade their facilities by renovation and expansion to accommodate increased player demand and player preference for more attractive gaming environments. Examples of these upgrades in facilities is as follows:

- the Great Northern Casino in Grande Prairie moved to a new location;
- the Casino by Vanshaw in Medicine Hat renovated its existing location;
- ABS Casino in Edmonton has plans to close one of its casinos and open a new facility in 2000;
- the Palace Casino is expanding and renovating to provide an enhanced gaming environment for its customers; and
- Casino Edmonton expanded its facility to accommodate additional slot machines, as did the Cash Casino facilities in both Red Deer and Calgary.

Local and wide area progressives, which pool a portion of each wager from several slot machines into a cumulative jackpot fund, increased activity in casinos and returned large prizes to Albertans. "Diamond Dollars" generated the single largest slot prize ever awarded in Alberta, a prize of over \$350,000.

The province's two racing entertainment centres are located in Edmonton and Lethbridge. The horse racing industry earned \$11.8 million from electronic games in those centres in 1999-2000, compared to \$8.9 million in 1998-99. Racing entertainment centres were established as part of the Racing Industry Renewal Initiative to assist the horse racing industry to maintain and enhance live horse racing in the province. Racing Entertainment Centres offer slot machines and electronic horse race games, in addition to live and simulcast, or satellite-fed, racing.

Ticket Lottery Operations

Gross revenue from ticket lottery sales increased to \$379 million in 1999-2000 from \$366 million in 1998-99. In the fiscal year retailers earned commissions of \$26.0 million, compared to \$24.8 million in 1998-99. Albertans won ticket lottery prizes amounting to about \$188 million in 1999-2000. Seven Albertans have each won more than \$1 million; the largest prize was more than \$8 million.

The Commission received net revenue of \$156.0 million from ticket lotteries, an increase of \$5.3 million over 1998-99.

The ticket lottery network, operated in partnership with the Western Canada Lottery Corporation (WCLC), markets lottery tickets such as Lotto 6/49, Western 6/49, Super 7, Sport Select and instant tickets. The network includes approximately 1,990 retail sites across the province. Among the retailers in the network are national corporate chains as well as independently operated retail outlets. A number of the corporate chains, such as Mac stores and Shell retail gas outlets, have upgraded their outlets and offer lottery tickets as a key product line.

During 1999-2000, the Commission provided 221 in-house training classes for 505 ticket retailers. On-site training was held at 23 locations. The Commission also was involved in the training of 97 corporate operators such as IGA, Shell and 7-Eleven.

The WCLC operates a central on-line computer lottery system on behalf of Alberta, Saskatchewan and Manitoba, its member provinces. A request for proposals was issued early in 1998 to replace that computer system. This action was required due to the technical obsolescence, inflexibility to change, and increasing maintenance costs associated with the current system. The successful bidder was Scientific Games International (SGI). SGI has been working with the WCLC to customize its SGI-NET system software to meet WCLC requirements. The required hardware has been installed and programs have been converted from the old to the new system. The system is being tested and is expected to be implemented in the fall of 2000.

The Commission regularly evaluates its membership within the Western Canada Lottery Corporation to ensure that best business practices are being followed and the province is obtaining maximum benefit for its expenditures. For that purpose, a private consultant was contracted to prepare a report for the Commission Board. Following presentation of this report to the board members of the Commission, the report was subsequently presented to board members of the WCLC. Following discussions with its partner provinces, a new agreement is expected to be signed in 2000 that will result in cost savings to the Alberta Gaming and Liquor Commission of \$2.2 million per year.

Major Exhibition Summer Fairs

Summer fairs provide entertainment to Albertans and are a revenue source for agricultural societies in the province. Each year the Commission approves temporary casinos at these summer fairs that include both table games and slot machines. Those fairs that featured temporary licensed casinos included the Calgary Stampede and Edmonton Klondike Days, each of which operated more than 400 slot machines at the casinos on their exhibition grounds. Other major exhibitions which operated temporary casinos included those in Lethbridge, Medicine Hat, Red Deer and Camrose. Grande Prairie operates slots only during live racing and the T'suu Tina First Nation during its PowWow Days.

Alberta Bingo Industry Review Committee

The Commission initiated a review of the bingo industry, to address various issues facing the bingo industry in Alberta. The Bingo Review Committee, comprising an impartial chair, an MLA, and a cross section of members from the bingo industry, was appointed to receive written submissions and hear verbal presentations from members of the bingo industry, charitable groups and other interested parties in 1999.

The committee submitted its report containing its findings and 74 recommendations to the Commission's Board in September 1999. The recommendations dealt with access by charitable organizations to bingo events, the conduct and management of bingo games, introduction of new bingo games and use of electronic technology, and integrity of bingo gaming in the province.

The Board is expected to submit the report and its analysis of the recommendations to the Minister of Gaming in 2000-01. Various recommendations that are broader in scope are being considered as part of the overall Gaming Licensing Policy Review that was initiated in 1999-2000.

Gaming Licensing Policy Review

In December 1999, the Commission initiated a review of gaming licensing policies, processes and procedures. This review is designed to address future changes and the ongoing interest being expressed by stakeholders in the growth of gaming activities in the province. The review includes consultations with stakeholders such as charitable organizations, municipalities, First Nations and the gaming industry. Previous consultations and their outcomes, such as the Bingo Industry Review, are being taken into account during the review.

Draft policies resulting from the review are expected to be prepared and submitted to the Minister of Gaming for consideration in the Spring of 2001. While the gaming licensing policy review is underway, requests to license or approve new casinos, casino expansions, casino relocation, new games and new gaming environments have been suspended.

Aboriginal Gaming

First Nations interested in developing and operating casinos have met with the Commission for input, planning, and clarification sessions. First Nations' participation in the gaming licensing review process ensures that First Nation interests are considered within the province's gaming policy. The Commission has established a working group that includes representatives from First Nations and Alberta Intergovernmental and International Affairs to address distinct First Nation issues as they pertain to gaming activities.

BENEFICIARIES OF GAMING REVENUE

Thousands of not-for-profit community organizations, projects and initiatives in the province benefit from gaming revenue each year. That revenue is obtained either through disbursements from the Alberta Lottery Fund or from licensed charitable gaming activities conducted by eligible charitable organizations.

Charitable Gaming

Alberta has adopted the charitable model for operating casinos,ingos, raffles and pull-tickets. These gaming activities may only occur when eligible charitable, not-for-profit or religious groups apply for and receive licences from the Commission to conduct these activities.

The Licensing Division issued over 7,000 gaming licences to eligible charitable, not-for-profit and religious organizations in 1999-2000. Approximately half of those licences were issued to charitable organizations holding bingo events in bingo association halls across the province. More than 2,500 licences were issued to organizations holding casino events. The remaining licences were issued for raffles with total ticket sales of over \$10,000 and pull tickets.

A summary of the number of licences, revenues and net profits to charities and not-for-profit organizations is as follows:

	Fiscal 2000					Fiscal 1999	
	Licences	Total Gross (\$ millions)	Prizes/ Winnings (\$ millions)	Expenses (\$ millions)	CGTs (\$ millions)	Net Profit to Charity (\$ millions)	Net Profit for Charity (\$ millions)
Bingos	3,506	302.6	192.7	55.1	-	54.8	58.6
Casinos	2,534	585.3	486.4	59.7	37.4	76.7	58.4
Pull Tickets	729	49.0	36.6	3.2	-	9.2	9.2
Raffles	342	59.4	24.4	12.8	-	22.1	22.1
	<u>7,111</u>	<u>996.3</u>	<u>740.1</u>	<u>130.8</u>	<u>37.4</u>	<u>162.8</u>	<u>148.3</u>

None of the proceeds from casino table games, bingo, raffles and pull-ticket activities accrue to the Commission. The Commission collects only licence fees from those activities.

A charitable, not-for-profit or religious group is eligible for a licence to conduct gaming activities if the group actively delivers a program or service that provides a benefit to a significant segment of the community, and uses the revenue from its gaming activities for a charitable or religious objective or purpose.

Examples of the type of activities that are delivered by charitable organizations which are eligible for gaming licences include:

- relief to the aged or disadvantaged (e.g., relief to the poor, programs for elderly to remain active in society, and social services and educational programs for emotionally/physically distressed);
- advancing education and learning (e.g., student scholarships and aid to schools, libraries, museums, the arts, and the preservation of cultural heritage); and
- help to the community (e.g., improvements to quality of health, medical research support, aid to medical treatment programs, supply a facility for community use, support competitive amateur athletics, and contribute to places for worship and other religious programs).

The groups that have obtained charitable gaming licences are, among other groups:

- agricultural societies;
- organizations assisting those afflicted with a specific or mental disorder;
- community associations and community leagues;
- senior citizens clubs such as those in senior citizen homes and those providing recreational and social activities for senior citizens;
- organizations providing programming for young people;
- associations that support competitive amateur hockey and swimming;
- performing and visual arts groups; and
- organizations that focus on specific issues of social concern and promote such issues through social and educational programs.

Alberta Lottery Fund



The Commission administers the Alberta Lottery Fund under the provisions of the *Gaming and Liquor Act*. That fund consists of revenue generated from ticket lotteries, slot machines and video lottery terminals.

Alberta's lottery profits are collected by the Commission and deposited into the Alberta Lottery Fund. Expenditures of the fund are approved by the Provincial Legislature. In 1999-2000 lotteries generated over \$863 million for the Alberta Lottery Fund, as compared to \$769 million in the previous year.

The Alberta Lottery Fund supports over 8,000 community initiatives each year including the Community Facility Enhancement Program (CFEP) and Community Lottery Boards. CFEP is a lottery funded initiative that assists communities across Alberta in the planning, upgrading and development of a wide range of community-use facilities and places to enhance community life and citizens' well-being. Alberta Lottery Fund dollars are also disbursed through community lottery boards across the province to support volunteer community organizations with project-based initiatives.

The Alberta Lottery Fund initiatives include the purchase of highly specialized state-of-the-art hospital equipment, and education, recreation and sport, cultural, agricultural and community initiatives. The Alberta Lottery Fund also supports general government initiatives, for example, school renewal and construction, infrastructure projects, and seniors' facility upgrades.

The Alberta Lottery Fund Commitments for 2000-01 appear on page 38 of this report. For a listing of lottery-funded organizations, see the Alberta Gaming and Liquor Commission website www.aglc.gov.ab.ca.

STAKEHOLDERS

There are many liquor and gaming stakeholders across Alberta. Each year the Commission works and consults with these organizations and individuals on a variety of common issues and policy matters. In 1999-2000 the Commission continued to work diligently to strengthen existing stakeholder relationships and build new ones, in order to encourage continuing and productive dialogue.

Public at Large

Inquiries and input from the public are encouraged by the Commission. Those enquiries or input range from general questions, including questions relating to the use of gaming or liquor revenue, to input on gaming and liquor policy to the process and steps necessary for an applicant to become involved in the gaming and liquor industries.

The Commission is committed to ensuring that its activities are accountable and transparent to Albertans and that the needs of Albertans are considered in the development of gaming and liquor policies.

In November 1999 the Commission launched its website **www.aglc.gov.ab.ca**. This website provides useful information and background regarding gaming and liquor activities in the province, and the use of revenues from gaming. The website content includes various reports, the Commission's quarterly updates, and gaming and liquor questions and answers.

In addition to information on the organization of the Commission, the website contains information for retailers and operators such as how to obtain a liquor licence, or apply for a gaming licence, and downloading or obtaining the necessary forms for that purpose. Most material is provided in formats that may be easily downloaded. The site allows users to order online the Commission's policy handbooks, or to search specific disciplinary decisions of the Commission's Board.

New information is continually being added to the website. Plans are in place to develop a more comprehensive database to make the site even more customer-service oriented.

Liquor Stakeholders

Liquor industry stakeholders include liquor retailers and consumers across the province.

Representative organizations in the liquor industry include the Alberta Liquor Store Association, the Alberta Hotel Association, the Alberta Restaurant & Food Services Association, the Beverage Alcohol Importers Advisory Council of Alberta, the Association of Canadian Distillers, the Canadian Wine Institute, and the Western Brewers Association.

The Commission attends meetings of the Alberta Liquor Industry Roundtable, a forum for industry members to discuss issues facing the beverage alcohol industry in Alberta. Members of the roundtable include the representative organizations identified above, as well as Connect Logistics and the Canadian Council of Regional Brewers.

Gaming Stakeholders

The number of stakeholders in gaming reflects the breadth and scope of the gaming industry, and the diversity of interests that are involved.

Those stakeholders include the thousands of charitable and not-for-profit organizations across Alberta that obtain gaming licences from the Commission to raise funds for their charitable and community-based projects.

Operators and retailers of gaming activities are also stakeholders in the gaming industry. Many of them are represented by industry associations such as the Alberta Gaming Industry Association, the Federation of Alberta Bingo Associations, the Bingo Hall Managers Association of Alberta, the Alberta Association of Casino Operators, the Registered Casino Advisors Association, the Alberta Hotel Association, and the Alberta Restaurant and Food Services Association.

Players are also important stakeholders who reflect their demands for gaming entertainment through the gaming activities that they support. Many players appreciate that the revenue generated by gaming supports worthwhile charitable and local projects in their own communities and throughout the province.

Municipal

Municipalities and police forces are also important stakeholders in both the gaming and liquor industries. Commission staff regularly communicate and work in close cooperation with the RCMP and municipal police services across Alberta on liquor and gaming related matters, particularly as they relate to enforcement and crime prevention.

Commission staff regularly are in contact with municipal staff who grant permits or licences to businesses that intend to operate liquor or gaming facilities.

Social Responsibility

The Commission works closely with the Alberta Alcohol and Drug Abuse Commission and other stakeholders, in particular members of the gaming industry, to address issues of social responsibility related to gaming and liquor activities.

SOCIAL RESPONSIBILITY

The Commission is involved with a number of programs and activities directly aimed at addressing problem gambling and encouraging the responsible use of alcohol products.

In cooperation with operators and retailers in the gaming industry, the Commission disseminates information about the Alberta Alcohol and Drug Abuse Commission's (AADAC's) 24-hour problem gambling help-line. The Commission consults with industry members on adopting programs to reduce problem gambling. In addition to providing training for VLT operators to recognize problem gambling behavior, the Commission is working with AADAC to increase the visibility of problem gambling prevention and education programs.

During 1999-2000, the Commission assisted with several campaigns such as "Walk the Walk," promoting the art of building resilience in children and youth, by producing a video and posters. The Commission also assisted in producing booklets, pamphlets and periodicals on a variety of other topics including quick facts about alcohol, drugs and gambling, and addictions awareness. The Commission assisted AADAC with the development and implementation of its intensive treatment program for problem gamblers, and a conference entitled the Think Tank on Youth and Gambling.

The Commission participated as an associate member in the Alberta Partnership on Fetal Alcohol Syndrome, a provincial group comprising stakeholders that are examining ways to reduce the incidence of fetal alcohol syndrome in children. The Commission assists as needed in the areas of public awareness and communications. The Commission also routinely encourages liquor licensees and manufacturers to promote the responsible use of alcohol in their promotions or advertising.

In agreement with AADAC, the Commission worked extensively with casino operators in developing a Casino Voluntary Self-Exclusion Program that is to be implemented in 2000-01. Under this program individuals with a gambling problem can ask to be placed on a list denying them entry to any casino in Alberta. Photographs of those individuals would be provided to staff in casinos across the province.

Regulating gaming and liquor services helps not only to preserve the integrity of those activities, but allows the Commission to ensure that various social responsibility requirements are being met as set forth in legislation, regulation or policy. For example, liquor licensees who serve liquor to minors - those under 18 years of age - face penalties up to and including suspension or cancellation of the liquor licence. The Commission's inspectors work closely with police services to detect and report violations in liquor licensed premises, including over-service of liquor, liquor service to minors, among others. Various licensees or retailers must post signs clearly indicating that minors are prohibited from accessing their premises or products, for example, charitable casino facilities, bars and lounges, and lottery tickets. As another example, liquor manufacturers and licensees who advertise their products or services are encouraged to portray the legal, moderate and safe consumption of liquor, and are prohibited from targeting their promotions or advertising to minors. The Commission highly recommends advertising campaigns that promote the responsible use of liquor. These, among other regulatory activities, convey the importance of social responsibility in the gaming and liquor industries of the province.

COMPLIANCE

The Commission's compliance activities are aimed at maintaining the integrity and security of the gaming and liquor industries within the province. The Licensing and Investigations divisions of the Commission are primarily responsible for enforcing the regulations and policies related to liquor and gaming activities.

A large part of the Commission's activities involves keeping clients and stakeholders informed about regulatory requirements in the liquor and gaming industries. For that purpose, the Commission regularly publishes and updates policy and guideline manuals for liquor retailers, and gaming operators, including those involved with charitable gaming activities.

Commission staff meet with new operators, applicants for gaming licences, or those interested in becoming part of the gaming or liquor industries. They also meet regularly with operators and retailers when they have issues or concerns, or to help them understand new or revised regulatory or policy requirements.

Consultations

The Commission is in the process of expanding its program of proactive consultation with the liquor industry and community groups. Those consultations include meeting with applicants of special occasion/community event permits. Fewer violations of legislation, regulation or Board policy are occurring because those applicants have a better understanding of the rules and regulations governing those permits.

In 1999-2000, the Commission and the Alberta Liquor Industry Roundtable worked together on the development of a new policy to allow liquor suppliers/liquor agencies and licensees the option of participating in brand and product promotions through buy/sell agreements. This initiative grew out of the recognition by both the liquor industry and the Commission that the previous policy was too restrictive and failed to allow for accepted business practices.

The Commission launched the Bingo Crime Prevention program, a program designed to provide executives of bingo associations and charities across the province training and awareness in maintaining the integrity of bingo operations.

Inspection Activities

Commission staff visit liquor and gaming establishments to ensure those establishments are meeting the requirements of the *Gaming and Liquor Act*, Regulations or Board policy. They discuss any violations of these requirements or issues with retailers or operators.

During 1999-2000, the Commission conducted 2,800 investigations into complaints received from the general public and industry stakeholders. There were also 19,000 inspections of licensed premises conducted by Commission staff during the fiscal year.

The Commission conducted security reviews of those who wished to be registered as gaming workers. In the fiscal year 2,514 gaming workers were registered, compared to 1,797 the previous year, an increase of 717 workers.

The Commission also performs forensic audits and other investigations in gaming, liquor and tobacco sales operations. This is another tool that the Commission uses to enforce the provisions of the *Gaming and Liquor Act*, the *Tobacco Tax Act*, the *Criminal Code of Canada*, and policies established by the Board of the Commission.

Investigations

The Commission maintains a close liaison with law enforcement and regulatory agencies. A number of major criminal investigations related to gaming, liquor and tobacco were conducted in cooperation with those agencies.

Incident reports on gaming-related matters decreased to 32 from 34 in the previous year. Those incidents concerned violations of VLT retailer agreements, cheating at play in casinos, illegal gaming activities, activities of registered gaming workers as well as the contravention of Board policies respecting legal gaming activities for raffles, pull tickets, bingo and casinos.

In addition, 507 new gaming investigation files in the areas of gaming and liquor were opened in the year, up significantly from the 159 files opened in the previous year. The increase in investigation files is attributed to a higher level of enforcement and placing greater emphasis on maintaining detailed statistics and reports. About 160 of these investigation files dealt with gaming worker and supplier registrations. A significant number of files involving counterfeit money being detected in gaming facilities were opened, leading to six individuals being charged and the apprehension of a counterfeiting ring.

The ensuing investigations and follow-up activities resulted in 125 charges being laid under the *Gaming and Liquor Act* and the *Criminal Code of Canada*, compared to 74 charges laid in 1998-99. In numerous cases, the Commission has been able to help charitable organizations recover gaming funds that had gone missing from their bank account through theft or fraud.

Under the *Tobacco Tax Act*, 133 new investigation files were opened, compared to 84 in 1998-99. The ensuing investigations resulted in a total of 39 charges being laid under the *Tobacco Tax Act*, two fewer than in the previous year. These checks primarily were to ensure that retail stores are aware that the purchase or sale of “Black Stock” cigarettes is illegal. “Black Stock” legislation was introduced to identify provincial tax-free cigarettes sold in First Nation retail outlets. The Commission carried out 195 compliance checks with tobacco retailers to ensure that tobacco being sold was legally purchased.

Liquor Related Infractions

The number of violations of the *Gaming and Liquor Act*, Regulation or Board policy on liquor-related matters decreased to 257 in the fiscal year from the 364 the year before. Those violations focused on five key areas of enforcement: illegal liquor, liquor service to minors, over-service, after-hours liquor service, and prohibited relationships between liquor suppliers and liquor licensees.

Forensic Audit

The Commission also actively monitors the financial activities of both the gaming and liquor industries and ensures that the operators meet the standards established by the Commission. Random audits on gaming operations to ensure compliance with the *Criminal Code of Canada*, the *Gaming and Liquor Act* and Commission policies are performed each year. The Commission also provides assistance in financial analysis, theft investigations and policy reviews and by responding to third-party complaints and stakeholder requests.

There were 64 audits completed in the fiscal year.

Charitable Use of Proceeds

When charitable organizations apply to the Commission for a gaming licence, they must state how the funds they raise will be used and receive approval for their proposed use of proceeds. This approval is based upon approved uses of proceeds set out in the *Criminal Code of Canada*. The Commission will approve applications of eligible charities and not-for-profit organizations if the proposed use of gaming proceeds are for charitable or religious purposes as required by legislation, regulation and Commission policies.

Once a licensed charity or not-for-profit organization has held their charitable gaming event, they are required to report back to the Commission on how those funds have been utilized. If those funds have not been utilized for the approved purposes, the Commission will initiate contact with the charitable organization to determine the reasons. If an acceptable explanation is not received, the matter is referred to the Licensing Division of the Commission or the charitable organization is scheduled for an audit.

Each year the Commission also conducts random and selected audits of licensed charitable groups that have held gaming activities, to determine whether they have used the proceeds as stated in their application for a licence.

Gaming Information Network

During the year, the Commission began to develop a Gaming Information Network that would provide an electronic medium for information exchange between gaming regulators and stakeholders. Information would be exchanged relating to crime prevention, counterfeit money, individuals banned from casino gaming, voluntary exclusion, gaming supplies and other topics of general interest. The system will begin operating in 2000-01. All casinos are expected to be part of the network by the end of 2000. The sharing of information among provinces, particularly as it applies to enforcement matters, is also being considered.

(The official version of this Report of the Auditor General, and the information the Report covers, is in printed form.)

AUDITOR'S REPORT

To the Members of the
Alberta Gaming and Liquor Commission

I have audited the balance sheet of the Alberta Gaming and Liquor Commission as at March 31, 2000 and the statements of net income and cash flow for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2000 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

I also report that certain expenditures made by the Commission are not in compliance with the applicable governing legislation. The normal commission paid to retailers for operating the Commission's electronic gaming activities on their premises is 15% of gaming revenues (wagers less prizes). However, as disclosed in Note 11 of the financial statements, agreements between the Commission, the Alberta Racing Corporation, and racetrack operators Northlands Park and Rocky Mountain Turf Club Inc. (the "Operators") provide for payment of 33a% of gaming revenues at these facilities to the Alberta Racing Corporation, and 33a% to the Operator. A separate agreement with the Calgary Exhibition and Stampede (the "Stampede") provides that 33a% of gaming revenues from electronic gaming activities at the Stampede charitable casino are to be paid to the Stampede, but does not provide for payment to the Alberta Racing Corporation. Section 26 of the *Gaming and Liquor Act* requires all lottery revenue, after payment of certain costs including retailers' commissions, to be deposited in the Lottery Fund. In my opinion, the payments to the Alberta Racing Corporation, and the payments to the Operators and the Stampede in excess of the normal retailer's commission of 15%, appear to be payments intended to support the government's Racing Industry Renewal Initiative, not retailers' commissions. As a result, payments to the Alberta Racing Corporation totalling \$5,891,000 (1999 - \$4,465,000), and payments to the Operators and the Stampede totalling \$4,794,000 (1999 - \$2,820,000) do not comply with s.26 of the *Gaming and Liquor Act* because this lottery revenue was not deposited to the Lottery Fund. In addition, these expenditures are not in accordance with the *Appropriation Act, 1999* and therefore have not been approved by the Legislature.

Original signed
by Peter Valentine FCA
Auditor General

Edmonton, Alberta
May 19, 2000

ALBERTA GAMING AND LIQUOR COMMISSION

BALANCE SHEET

(in thousands)

As at March 31, 2000

	March 31, 2000	March 31, 1999
ASSETS		
Current Assets		
Cash and term deposits (Note 4)	\$ 116,924	\$ 122,133
Accounts receivable	17,687	9,690
Prepaid expenses and inventories (Note 5)	5,056	5,488
	139,667	137,311
Capital Assets (Note 6)	67,984	61,878
	\$ 207,651	\$ 199,189
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 59,964	\$ 61,024
Due to the Lottery Fund (Note 8)	21,000	11,093
Due to General Revenues (Note 9)	120,463	119,018
	201,427	191,135
Provision for Loss on Leased Properties	6,224	7,283
Pension Liability (Note 3)	-	771
	6,224	8,054
	\$ 207,651	\$ 199,189

The accompanying notes and schedules are part of these financial statements.

APPROVED BY MANAGEMENT:

Eric McGhan
Chairman and Chief Executive Officer

Norman C. Peterson, CA
Chief Financial Officer

ALBERTA GAMING AND LIQUOR COMMISSION

STATEMENT OF NET INCOME

(in thousands)

For the year ended March 31, 2000

	Budget 2000	Actual 2000	Actual 1999
	(Note 10)		
Liquor sales		\$ 1,215,858	\$ 1,182,806
Cost of liquor sold		<u>759,988</u>	<u>715,787</u>
Gross profit on liquor sales	\$ 453,000	455,870	467,019
Gross income from video lottery and casino gaming terminal operations (Schedule 1)	620,500	699,762	619,356
Gross income from ticket lottery operations (Schedule 2)	147,000	156,017	150,731
Other income (Note 12)	9,114	14,727	17,797
Grant from General Revenues	69,521	69,248	62,984
Operating expenses (Note 13)	(69,521)	(69,248)	(62,984)
NET INCOME, for the year	<u>\$ 1,229,614</u>	<u>\$ 1,326,376</u>	<u>\$ 1,254,903</u>

ALBERTA GAMING AND LIQUOR COMMISSION

STATEMENT OF CASH FLOW

(in thousands)

For the year ended March 31, 2000

	Actual 2000	Actual 1999
CASH FROM OPERATIONS		
Net income for the year	\$ 1,326,376	\$ 1,254,903
Decrease in provision for loss on leased properties	(1,059)	(838)
Amortization	17,624	12,373
Gain on disposal of capital assets	(23)	(32)
Decrease in amount due to General Revenues	(5,667)	(3,849)
Decrease in pension liability	(771)	(108)
Net change in non-cash working capital balances	(8,625)	1,681
	1,327,855	1,264,130
REMITTANCES TO THE LOTTERY FUND	(847,357)	(832,825)
REMITTANCES TO GENERAL REVENUES	(462,000)	(425,000)
	18,498	6,305
CASH USED FOR INVESTMENT		
Purchase of capital assets	(23,740)	(19,346)
Proceeds on disposal of capital assets	33	69
Reduction of mortgages receivable (net)	-	7,771
	(23,707)	(11,506)
DECREASE IN CASH AND TERM DEPOSITS	(5,209)	(5,201)
CASH AND TERM DEPOSITS, beginning of year	122,133	127,334
CASH AND TERM DEPOSITS, end of year	116,924	122,133

NOTES TO THE FINANCIAL STATEMENTS

(tabular amounts in thousands)

March 31, 2000

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Gaming and Liquor Commission (the Commission) operates under the authority of the *Gaming and Liquor Act*, Chapter G-0.5, Statutes of Alberta 1996.

The Commission conducts and manages provincial lotteries, carries out functions respecting gaming under the *Criminal Code of Canada*, and controls, in accordance with legislation, the manufacture, importation, sale and purchase of liquor for the Government of Alberta.

The net proceeds arising from the conduct of authorized ticket lottery, video lottery and casino gaming terminal operations in Alberta are remittable to the Lottery Fund. The net proceeds of liquor operations and other income are remittable to General Revenues.

The Commission is a Crown agent of the Government of Alberta and as such has a tax-exempt status.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

Joint Venture

Alberta's share of the operations of the Western Canada Lottery Corporation is accounted for as a joint venture using the proportionate consolidation method.

Inventories

Supplies inventories are valued at weighted average cost which is not in excess of net replacement value.

Inventory held on behalf of liquor suppliers or agents, and related duties and taxes, are not recorded in the financial statements.

Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization is calculated on the straight-line method at annual rates which will reduce the original cost to estimated residual value over the useful lives of the assets, as follows:

Buildings and leasehold improvements	2.5% or 10% (or lease term)
Gaming systems and equipment	20% or 33a %
Video lottery and casino gaming terminals	14.3%
Furniture and equipment	10% or 20%
Retailer fixtures and signage	20%
Computer software	33a %
Vehicles	20% or 33a %

NOTES TO THE FINANCIAL STATEMENTS

(tabular amounts in thousands)

March 31, 2000

NOTE 2 Capital assets held for sale are stated at estimated net realizable value.
(Con't)

Write-downs of capital assets to estimated net recoverable amount or to net realizable value are included in accumulated amortization.

Pensions

The Commission participates in multi-employer pension plans with related government entities. Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year and additional employer contributions for service related to prior years.

Revenue Recognition

Revenues are recognized on an accrual basis. On-line ticket lottery revenues are recognized at the date of the draw with instant ticket revenues being recognized at the date of sale to retail.

Measurement Uncertainty

The preparation of the Commission's financial statements, in accordance with generally accepted accounting principles, requires management to make estimates that affect the reported amount of revenues, expenses, assets and liabilities as well as the disclosure of contingent assets and liabilities at the financial statement date.

NOTE 3 CHANGE IN ACCOUNTING POLICY

The Commission has changed the way it accounts for its participation in multi-employer pension plans to a defined contribution basis. Under this accounting basis, the expense for these pension plans is equivalent to the annual contribution exclusive of any adjustment for unfunded pension liability. This change in accounting policy has been applied prospectively. An adjustment in the amount due to general revenues at March 31, 2000 has been made to reflect the reversal of the prior year's pension liability of \$770,622.

NOTE 4 CASH

Cash consists of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years. The Fund earns interest on its daily cash balance at the average rate of interest earned by the CCITF, which varies depending on prevailing market interest rates. Due to the short-term nature of CCITF investments, the carrying value approximates fair value.

NOTES TO THE FINANCIAL STATEMENTS

(tabular amounts in thousands)

March 31, 2000

NOTE 5 PREPAID EXPENSES AND INVENTORIES

	March 31, 2000	March 31, 1999
VLT parts	\$ 2,878	\$ 3,415
Prepaid expenses	1,859	1,735
Supplies	319	338
	<u>\$ 5,056</u>	<u>\$ 5,488</u>

NOTE 6 CAPITAL ASSETS

	March 31, 2000		March 31, 1999	
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE	NET BOOK VALUE
Land	\$ 4,113	\$ -	\$ 4,113	\$ 4,113
Buildings and leasehold improvements	48,781	36,067	12,714	13,205
Gaming systems and equipment	45,989	37,011	8,978	3,727
Video lottery and casino gaming terminals	89,095	50,666	38,429	36,841
Furniture and equipment	25,544	24,175	1,369	1,205
Retailer fixtures and signage	7,472	6,535	937	1,166
Computer software	5,828	5,628	200	362
Vehicles	1,351	866	485	500
Other	1,941	1,182	759	759
	<u>\$ 230,114</u>	<u>\$ 162,130</u>	<u>\$ 67,984</u>	<u>\$ 61,878</u>

NOTE 7 PENSIONS

The Commission participates in the following multi-employer pension plans: the Public Service Pension Plan, the Management Employee Pension Plan, and the Supplementary Retirement Plan for Public Service Managers. Commencing in the current year, the Commission accounts for its participation in these plans on a defined contribution basis, whereby pension expense equals pension contributions of \$839,162.

Effective January 1, 1999, the Commissions contribution to the Public Service Pension Plan was reduced by 0.3 percent of pensionable salaries.

At December 31, 1999, the Management Employees Pension Plan reported an actuarial surplus of \$46,019,000 (1998 - \$4,355,000) and the Public Service Pension Plan reported an actuarial surplus of \$517,000,000 (1998 - \$406,445,000). At December 31, 1999, the Supplementary Retirement Plan for Public Service Managers had a surplus of \$33,000.

NOTES TO THE FINANCIAL STATEMENTS

(tabular amounts in thousands)

March 31, 2000

NOTE 8 DUE TO THE LOTTERY FUND

This amount represents the portion of the revenues from lottery operations which has not been remitted to the Lottery Fund.

	Actual 2000	Actual 1999
DUE TO THE LOTTERY FUND , beginning of year	\$ 11,093	\$ 72,241
REMITTABLE TO THE LOTTERY FUND	857,264	771,677
REMITTANCES TO THE LOTTERY FUND	<u>(847,357)</u>	<u>(832,825)</u>
DUE TO THE LOTTERY FUND , end of year	<u>\$ 21,000</u>	<u>\$ 11,093</u>

NOTE 9 DUE TO GENERAL REVENUES

Due to General Revenues reflects the outstanding balance due to General Revenues from liquor operations and other income, as follows:

	2000	1999
Due to General Revenues, beginning of year	\$ 119,018	\$ 64,641
Operating grant returned to General Revenues	<u>(7,672)</u>	<u>(11,521)</u>
	111,346	53,120
Net income for the year	1,326,376	1,254,903
Remittable to the Lottery Fund	(857,264)	(771,677)
Remittances to General Revenues	<u>(462,000)</u>	<u>(425,000)</u>
	7,112	58,226
Adjustment for pension liability	771	-
Due to Gaming	961	-
Due to General Revenues from operating grant funds, end of year	<u>273</u>	<u>7,672</u>
	2,005	7,672
Due to General Revenues, end of year	<u>\$ 120,463</u>	<u>\$ 119,018</u>

NOTE 10 BUDGET

The Commission, in its annual business plan, includes its annual budget on a summarized basis. The summarized budget receives approval by the Minister of Gaming and becomes part of the estimates of the Government. The Government Estimates are approved by the Legislature.

NOTES TO THE FINANCIAL STATEMENTS

(tabular amounts in thousands)

March 31, 2000

NOTE 11 RACING RENEWAL INITIATIVE

- a) In May 1996, the Government approved a Racing Renewal Initiative. Under this Racing Renewal Initiative, the Government, through the Alberta Gaming and Liquor Commission, committed to assisting in the development of the horse racing industry by allowing electronic gaming activities at racing entertainment centres located at racetracks. The racetrack operators and the Alberta Racing Corporation would each receive, through the Alberta Gaming and Liquor Commission, 33 $\frac{1}{3}$ percent of the gaming revenues earned at these racing entertainment centres.

The first 33 $\frac{1}{3}$ percent of gaming revenues are to be used to offset the costs of operating electronic gaming at the racing entertainment centres, the operating costs associated with live horse racing and the capital costs associated with live horse racing. These funds are administered by the racetrack operators. The second 33 $\frac{1}{3}$ percent of gaming revenues are to be used for the enhancement of race purses. These funds are administered by the Alberta Racing Corporation. The payment of these funds is included in retailer commissions reported on Schedule 1.

Racing entertainment centres have been approved at Northlands Park in Edmonton and Whoop-Up Downs in Lethbridge.

Gaming proceeds paid to the racetrack operators and the Alberta Racing Corporation from the Racing Renewal Initiative are:

	Actual 2000	Actual 1999
Northlands Racing Entertainment Centre		
Northlands Park	\$ 4,765	\$ 3,690
Alberta Racing Corporation	<u>4,765</u>	<u>3,690</u>
	<u>9,530</u>	<u>7,380</u>
Whoop-Up Downs		
Rocky Mountain Turf Club Inc.	1,126	775
Alberta Racing Corporation	<u>1,126</u>	<u>775</u>
	<u>2,252</u>	<u>1,550</u>
	<u>\$ 11,782</u>	<u>\$ 8,930</u>

- b) On January 1, 1999 the Alberta Gaming and Liquor Commission entered into an agreement with the Calgary Exhibition and Stampede to provide them with up to 33 $\frac{1}{3}$ percent of revenue from the electronic gaming activities conducted at the Stampede charitable casino. These funds were paid to the Calgary Exhibition and Stampede in return for their commitment to continue live horse racing at Stampede Park to December 31, 2000.

Gaming proceeds paid to the Calgary Exhibition and Stampede and included in retailer commissions were \$2,824,971 (1999-\$663,000).

NOTES TO THE FINANCIAL STATEMENTS

(tabular amounts in thousands)

March 31, 2000

NOTE 12 OTHER INCOME

	Actual 2000	Actual 1999
Licences and permits	\$ 5,604	\$ 7,023
Interest revenue	5,468	7,279
Fines and violations	1,387	202
Liquor levies	1,195	1,193
Premises rental revenue	566	549
Retailer service fees	521	506
Gain on disposal of capital assets	23	32
Miscellaneous	(37)	1,013
	<u>\$ 14,727</u>	<u>\$ 17,797</u>

NOTE 13 OPERATING EXPENSES

	Actual 2000	Actual 1999
Salaries and benefits	\$ 19,984	\$ 19,009
Amortization	17,624	12,373
Media and media production	6,492	6,135
Communications	6,339	5,958
Equipment and vehicles	5,415	4,373
Ticket printing	5,251	4,855
Property	1,824	2,894
Fees and services	1,389	1,632
Travel and training	1,136	1,387
Stationery and supplies	994	1,005
Freight and product delivery	766	624
Insurance and bank charges	733	788
Data processing	553	352
Miscellaneous	490	1,252
Presentations and publications	122	116
Retailer relations	89	146
Product expense	72	113
Overhead and other	(25)	(28)
	<u>\$ 69,248</u>	<u>\$ 62,984</u>

NOTES TO THE FINANCIAL STATEMENTS

(tabular amounts in thousands)

March 31, 2000

NOTE 14 CONTINGENT LIABILITY

- a) The Commission has a number of properties, primarily former retail liquor stores, that operate under lease arrangements with terms ranging from one to thirty-two years. Most of these properties have been subleased to third parties. The Commission remains liable for the leases should the sublessor default on their obligations to the Commission. The Commission's future minimum lease payments under these arrangements, including its proportionate share of the Western Canada Lottery Corporation commitments, is summarized as follows:

Fiscal	2000-01	\$	2,467
	2001-02		1,982
	2002-03		1,743
	2003-04		977
	2004-05		894
	Balance to expiry		<u>8,353</u>
		\$	<u>16,416</u>

Estimated future revenues to be derived from subleases amount to \$8.6 million at March 31, 2000. Provision for loss has been made where the payments to be received on the sub-leases are less than the lease payments to be made.

- b) In the normal course of its business operations, the Commission has been named as defendant in various legal actions. The resulting loss, if any, from these claims cannot be determined at this time, but no material loss is anticipated.

NOTES TO THE FINANCIAL STATEMENTS

(tabular amounts in thousands)

March 31, 2000

NOTE 15 SALARIES AND BENEFITS

	2000			1999
	Salary (a)	Benefits (b)	Total	Total
Senior Officers				
Chairman and CEO (c)	\$ 54	\$ 1	\$ 55	\$ 159
Deputy Chairman and CFO	127	7	134	126
Chief Operating Officer(d)	98	16	114	128
Board Members	59	1	60	20
Executives				
Executive Director Lottery Services	98	16	114	102
Manager Forensic Audit	82	14	96	88

- a) Salary includes regular base pay, bonuses and lump sum payments.
- b) Benefits include the Commission's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, short and long term disability, professional memberships, tuition and automobile benefits.
- c) The Chairman and CEO retired from the Alberta Gaming and Liquor Commission on April 30, 1999. Coincidental with the Government reorganization of May 25, 1999, the Deputy Minister of Gaming was also appointed as the Chairman and CEO of the Alberta Gaming and Liquor Commission.
- d) The Chief Operating Officer was transferred to Government Services effective January 1, 2000. The position has not been filled.

NOTES TO THE FINANCIAL STATEMENTS

(tabular amounts in thousands)

March 31, 2000

NOTE 16 JOINT VENTURE - TICKET LOTTERY OPERATIONS

The joint venture conducted by Western Canada Lottery Corporation was accounted for using the proportionate consolidation method. The Commission has included in its accounts the following aggregate amounts:

	As at March 31,	
	2000	1999
Balance Sheet		
Current assets	\$ 31,746	\$ 30,777
Capital assets	5,659	2,477
	<u>\$ 37,405</u>	<u>\$ 33,254</u>
Current liabilities	\$ 16,926	\$ 15,881
Investment in joint venture	20,479	17,373
	<u>\$ 37,405</u>	<u>\$ 33,254</u>
	Year ended March 31,	
	2000	1999
Statement of Net Income		
Gross income	\$ 156,017	\$ 150,731
Interest	1,485	1,590
Expenses	(19,864)	(20,220)
Net income	<u>\$ 137,638</u>	<u>\$ 132,101</u>
Statement of Cash Flow		
Cash generated from operating activities	<u>\$ 138,479</u>	<u>\$ 136,637</u>
Cash used by investing activities	<u>\$ 4,346</u>	<u>\$ 643</u>

ALBERTA GAMING AND LIQUOR COMMISSION

VIDEO LOTTERY AND CASINO GAMING

TERMINAL OPERATIONS

SCHEDULE 1

(in thousands)

For the year ended March 31, 2000

	Actual 2000	Actual 1999
REVENUE		
Video lottery terminals (a)	\$ 7,684,172	7,403,386
Casino gaming and Electronic Racing Terminals	<u>3,545,566</u>	<u>2,226,980</u>
	<u>11,229,738</u>	<u>9,630,366</u>
PRIZES		
Video lottery terminals (a)	7,056,513	6,797,274
Casino gaming and Electronic Racing Terminals	<u>3,275,393</u>	<u>2,051,293</u>
	<u>10,331,906</u>	<u>8,848,567</u>
GROSS INCOME FROM VIDEO LOTTERY AND CASINO GAMING TERMINAL OPERATIONS , before the following	897,832	781,799
RETAILER COMMISSIONS (Note 11)	(186,813)	(152,240)
FEDERAL TAX EXPENSE (b)	<u>(11,257)</u>	<u>(10,203)</u>
GROSS INCOME FROM VIDEO LOTTERY AND CASINO GAMING TERMINAL OPERATIONS	<u>\$ 699,762</u>	<u>\$ 619,356</u>

- (a) Video lottery terminal revenues and prizes have been restated to reflect total money played and won on the terminals. The effect of this change is to increase reported revenues and prizes for 1999 by \$5,443,397,000. The gross income figure does not change.
- (b) Taxes are paid to the Government of Canada in lieu of the Goods and Services Tax (GST) on ticket lottery, video lottery and casino gaming terminal sales based on a prescribed formula. This tax is in addition to the GST paid on the purchase of goods and services for which credit is denied under the formula.

ALBERTA GAMING AND LIQUOR COMMISSION

TICKET LOTTERY OPERATIONS

SCHEDULE 2

(in thousands)

For the year ended March 31, 2000

	Actual 2000	Actual 1999
REVENUE		
Lotto 6/49	\$ 135,448	\$ 150,668
Instant	98,355	97,501
The Plus	42,389	39,576
Sport Select	32,723	30,693
Super 7	31,915	24,018
Pick 3	7,356	6,573
Extra	8,115	6,262
Pogo	-	4,191
Western 6/49	22,739	3,961
Special Event	-	2,556
	<u>379,040</u>	<u>365,999</u>
PRIZES	<u>188,552</u>	<u>182,342</u>
GROSS INCOME FROM TICKET LOTTERY OPERATIONS, before the following	190,488	183,657
RETAILER COMMISSIONS	(25,995)	(24,841)
PAYMENTS TO GOVERNMENT OF CANADA (a)	(5,276)	(5,154)
FEDERAL TAX EXPENSE (b)	(3,200)	(2,931)
GROSS INCOME FROM TICKET LOTTERY OPERATIONS	<u>\$ 156,017</u>	<u>\$ 150,731</u>

(a) This payment represents the Province of Alberta's share of payments to the Government of Canada as a result of an agreement between the provincial governments and the federal government on the withdrawal of the federal government from the lottery field. The payment is made by the Western Canada Lottery Corporation on behalf of Alberta, and is based on current population statistics and its share of ticket lottery sales.

(b) Taxes are paid to the Government of Canada in lieu of the Goods and Services Tax (GST) on ticket lottery, video lottery and casino gaming terminal sales based on a prescribed formula. This tax is in addition to the GST paid on the purchase of goods and services for which credit is denied under the formula.

ALBERTA LOTTERY FUND COMMITMENTS 2000-01

Alberta's lottery profits are deposited into the Alberta Lottery Fund. Lottery Fund expenditures are approved annually by the Provincial Legislature.

This fund is used to support over 8,000 worthwhile community initiatives. Hospital equipment purchases, health and wellness programs, education, recreation and cultural initiatives are just some of the ways lottery proceeds are used.

The following is the list of Alberta Lottery Fund estimates for the fiscal year 2000-01.

COMMUNITY AND MUNICIPAL DEVELOPMENT INITIATIVES

Community Development

Foundation for the Arts	\$ 21,104,000
Historical Resources Foundation	5,913,000
Wild Rose Foundation	6,600,000
Human Rights, Citizenship and Multiculturalism Education Fund	1,062,000
Sport, Recreation, Parks and Wildlife Foundation	14,885,000
2001 World Championships in Athletics	10,000,000
Trans Canada Trail Project	1,100,000

Gaming

Alberta Gaming and Liquor Commission – Lottery Operations	54,639,000
Community Lottery Program Grants	53,300,000
Community Facility Enhancement Program	25,000,000
Other Initiatives	11,525,000
Major Fairs and Exhibitions	2,660,000
Calgary Exhibition and Stampede	7,100,000
Edmonton Northlands	7,100,000
Gaming Research Institute	1,500,000
Lottery Programs Administration	1,209,000

Infrastructure

Seniors' Lodges	10,000,000
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Municipal Affairs

Municipal 2000 Sponsorship	12,000,000
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AGRICULTURAL AND ECONOMIC INITIATIVES

Agricultural and Rural Development

Agricultural Initiatives	11,620,000
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Infrastructure

Water Management Infrastructure	20,000,000
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Innovation and Science

Agriculture Research Institute	8,582,000
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EDUCATION INITIATIVES

Learning

School Technology Upgrading	60,000,000
Transportation Subsidies – School Support	20,000,000
Learning Television	7,600,000
Athletic Scholarships	1,700,000

Infrastructure

School Facilities	100,000,000
Post-Secondary Facilities	30,000,000

HEALTH INITIATIVES

Children’s Services

Fetal Alcohol Initiative	1,000,000
Permanency Planning for Children in Care	200,000

Health and Wellness

Health Authorities Supplemental Capital Equipment Funding	38,207,000
Alberta Alcohol and Drug Abuse Commission	33,320,000
Alberta Wellnet	15,000,000
Alternate Compensation Strategies	10,350,000
Advanced Medical Equipment	10,000,000
Health Authorities Innovation Fund	10,000,000
Alberta Wellness Initiative	4,744,000
Aboriginal Health Strategies	3,000,000
Federal Nursing Stations	2,550,000
Persons with Developmental Disabilities Foundation	357,000

Infrastructure

Construction and Upgrading of Health Care Facilities	120,000,000
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SCIENTIFIC AND ENERGY INITIATIVES

Innovation and Science

Strategic and University Research Initiatives	32,250,000
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DEBT REPAYMENT

<u>50,323,000</u>
<u>\$837,500,000</u>