

**Manitoba Gaming
Control Commission**

1998-99 **ANNUAL REPORT**

Mission Statement

The Manitoba Gaming Control Commission is an independent commission created to regulate and control gaming activity in the Province of Manitoba with the aims of ensuring that the gaming activity is conducted honestly, with integrity and in the public interest.

The Commission recognizes the diversity of views with respect to gaming and will take a reasoned and balanced approach toward gaming activities in our province.

The Commission will strive at all times to treat its employees, its clients and the general public with respect, fairness and service beyond question.

For more information please contact:
Manitoba Gaming Control Commission
800 - 215 Garry Street
Winnipeg, Manitoba R3C 3P3
Telephone - (204) 954-9400
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September 14, 1999

Honourable Shirley Render
Minister responsible for The Gaming Control Act
Room 317, Legislative Building
450 Broadway
Winnipeg, MB R3C 0V8

Dear Madame Minister:

I have the honour to submit, pursuant to Section 5 of *The Gaming Control Act*, a report of proceedings under The Act for the fiscal year ended March 31, 1999.

Respectfully submitted,



Archie M. Cham
Chair



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**Manitoba Gaming
Control Commission**



Remarks from the Chair

In the Manitoba Gaming Control Commission's (MGCC) inaugural annual report, I commented on the evolution of gaming across Canada and in Manitoba. The past three decades have been characterized by a gradual shift that has led to the development of a myriad of gaming activities from coast to coast. This evolution has also included consideration of community and individual impacts and during 1998-99, in addition to its regulatory responsibilities, the MGCC focussed its attention on these matters.

The Commission began the year with the implementation of the Problem Gambling Assistance Program, the first of its kind in North America — and concluded the year by requiring program participation by all Video Lottery Terminal (VLT) sites in the province.

In supporting and developing this program, industry stakeholders, including hospitality and gaming industry representatives, and the Addictions Foundation of Manitoba worked together to create a program that is appropriate and responsive to this sensitive issue. This program recognizes that people who work at VLT sites are in a unique position to assist individuals who may be experiencing problems with their gambling behaviour. The MGCC views this new requirement as a positive and natural evolution of gaming regulation in the province and within its responsibility of ensuring that gaming in Manitoba is conducted in the public interest.

In its policy advisory role, the MGCC was asked by the Minister responsible for The Gaming Control Act, to consider two gaming policy issues. Early in the year, the MGCC examined the question of municipal VLT plebiscites as recommended by the Lottery Policy Review Working Group. In support of its deliberations and research, the MGCC conducted its first public hearings, received written submissions and held private meetings, to determine the views of Manitobans on this issue.

Following province-wide public consultations in the spring of 1998, the MGCC presented the Provincial Government with the *Municipal VLT Plebiscite Review* (July 1998). This report made specific recommendations in support of municipal decision-making with respect to VLTs. During the consultations, Manitobans strongly supported the position that municipalities should have the right to conduct and implement the results of VLT plebiscites.

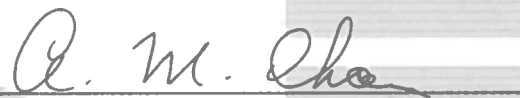
The Commission synthesized Manitobans' views into a series of recommendations that supported the construction of a formal framework for an equitable and workable plebiscite process for all municipalities. It is the Commission's understanding that the Provincial Government intends to formalize this process during the coming year.

The Commission also provided the Minister responsible for The Gaming Control Act, with its review of the *First Nations Gaming Policy Review Report* (October, 1997). During its deliberations, the Commission considered matters relating to VLTs and First Nations casino development. The Commission's review was prepared at the request of the Provincial Government and in support of ongoing discussions related to First Nations gaming activities in Manitoba.

In the coming year, the Commission members will conduct an operational and regulatory examination of the province's VLT program. Our plebiscite consultations in 1998 gave the Commission some insight into perceptions and views with regard to this program, and we look forward to carrying out and completing this review.

In meeting our responsibilities to regulate and control gaming activities in Manitoba, the Commission members have established oversight committees for charitable gaming, First Nations gaming, VLT activities, addictions and regulatory matters. These committees have enabled the Commission members to closely examine and consider matters before the Commission and have supported regulatory as well as policy advisory roles. It is the members' intent to continue to rely upon this committee structure as a way of responding to the challenges inherent in ensuring gaming activities in Manitoba are conducted honestly, with integrity and in the public interest.

In closing, and on behalf of the Commission members, I would like to extend thanks to the staff and management of the MGCC for all that was accomplished in 1998-99, and for your continuing efforts on behalf of the Commission members and the people of Manitoba.



Archie M. Cham
Chair

Remarks from the Executive Director

The Manitoba Gaming Control Commission (MGCC) marked its first full year of service to Manitobans during the 1998-99 fiscal year. Having accomplished the successful transition of functions and responsibilities from one government agency to another, the Commission began to consider its future direction, particularly in the context of service to our clients, the public and stakeholder groups.

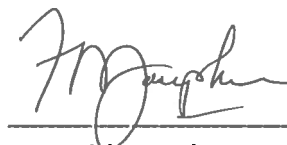
In conducting this examination, it soon became clear that the Commission needed to develop a new service oriented structure; one that is driven by new ideas and technologies; that supports service priorities; and creates a new responsive and progressive regulatory body. And so, in 1998-99, the MGCC began a two-year, business process reengineering initiative.

In its first year, this initiative examined six core processes, including licensing, audit, investigation, inspection, technical integrity and registration functions in order to prepare recommendations for a new structure to enhance the Commission's mission and responsibilities. This component of the review was completed late in the year. The results included recommendations for the reengineering of primary processes, policies, organization structure and information technologies.

The Commission looks forward to the completion of this first phase of the reengineering process early in the new fiscal year. At that time, we will begin the second phase which will involve designing and implementing new structure and function processes, which will be supported by new integrated enabling technologies.

Despite the time and energy devoted to this process, staff and management continued to carry out the operational and policy advisory responsibilities as mandated in *The Gaming Control Act* and accompanying regulations. The results of these responsibilities are enumerated in the following narrative and financial sections. And while the numbers and statistics contained in this report provide an overview of the Commission's operations, the figures really represent the activities of hundreds of charitable organizations and the people who support them with their time, energy and creativity. The Commission also works closely with the hospitality industry and the Manitoba Lotteries Corporation in ensuring we carry out our mission on behalf of the people of Manitoba.

The staff and management of the MGCC look forward to continuing to work with charities, First Nations, the general public and industry stakeholders in ensuring that gaming activities are conducted honestly, with integrity and in the public interest.



F.J.O. (Rick) Josephson
Executive Director

OPERATIONAL OVERVIEW

During 1998-99, the Manitoba Gaming Control Commission (MGCC) marked its first full year of operation. Established in October 1997, this independent commission regulates and controls gaming in Manitoba with the aims of ensuring that gaming activities are conducted honestly, with integrity and in the public interest. The MGCC derives its powers and responsibilities from *The Gaming Control Act* and accompanying regulations.

The MGCC is led by a seven-member Board of Commissioners. The individual Commissioners are representative of rural and urban community interests and bring diverse expertise and perspectives to their responsibilities with the MGCC. The Commissioners serve a policy advisory role to the Provincial Government on matters related to gaming in the province. As well, in accordance with the Act, the Commissioners are responsible for hearing and ruling on regulatory breaches; matters relating to supplier and employee registration by the Commission; and disputes brought forward by Manitoba Lotteries Corporation (MLC) patrons or suppliers as part of its dispute resolution function.

In terms of its operational responsibilities, the MGCC is also responsible for: licensing and monitoring charitable gaming events; registering gaming industry employees and suppliers; conducting gaming inspections and investigations; overseeing First Nations gaming activities; and registering electronic gaming devices.

In approaching and meeting these responsibilities, the MGCC Commissioners and staff take an independent and balanced approach, which recognizes the divergent views with respect to gaming activities in Manitoba.

HIGHLIGHTS

LICENSING

The Licensing Department is responsible for licensing bingo, breakopen ticket, raffle, wheel of fortune, Calcutta auction and Monte Carlo events in support of charitable endeavors across the province. This department licenses and oversees the majority of charitable gaming activity in the province, with the exception of municipal charitable gaming licences for raffles with prizes under \$3,000, and First Nations Gaming Control Commission licensed events.

During 1998-99, a total of 1,219 licences were issued to eligible organizations to conduct specified gaming activities, including bingo, breakopen ticket and raffle events. There were 88 fewer licences issued compared to the previous year, representing a decrease of 6.7%. Licensed organizations generated sales of \$104.9 million, and realized net revenues of \$16.3 million after prizes and expenses. These financial results reveal a 1.2% decline in gross charitable gaming sales. However, the net income derived from these sales remained constant with the prior year.

A review of the following chart reveals information about the performance of specific charitable gaming events as compared to activities carried out in 1997-98.

CHARITABLE GAMING (IN \$ MILLIONS)
Fiscal Year 1998/1999

Event Type	Licensed Events		Gross Revenue		Prizes Paid		Total Expenses		Net Profit	
	98/99	97/98	98/99	97/98	98/99	97/98	98/99	97/98	98/99	97/98
Bingo	559	589	\$80.1	\$80.0	\$61.3	\$61.0	\$9.4	\$9.6	\$9.4	\$9.4
Breakopen	486	515	\$13.8	\$15.0	\$9.7	\$10.4	\$1.8	\$2.1	\$2.3	\$2.5
Raffle	139	161	\$10.8	\$11.0	\$4.4	\$4.6	\$1.9	\$2.1	\$4.5	\$4.3
Other	35	42	\$0.2	\$0.2	\$0.1	\$0.1	\$0.0	\$0.0	\$0.1	\$0.1
Total Charitable Gaming	1,219	1,307	\$104.9	\$106.2	\$75.5	\$76.1	\$13.1	\$13.8	\$16.3	\$16.3

LICENSING AUDIT

The Licensing Audit Department provides reasonable assurance to the MGCC, the Provincial Government and the general public that all charitable gaming revenue and expenses are recorded and reported in accordance with the terms and conditions of each charitable gaming licence. MGCC auditors review charitable gaming licensees' financial reports that detail gross revenues, prizes, expenses and disbursements. This department received and reviewed approximately 3,900 reports during 1998-99.

REGISTRATION

The Gaming Control Act requires that all MLC employees, suppliers, Video Lottery Terminals (VLTs) and other electronic gaming devices, and VLT siteholder agreements be registered with the MGCC. The responsibility for these registration functions rests with the Commission's Registration Department.

During 1998-99, this department processed 884 new MLC employee applications and conducted 1,102 annual updates on MLC employees. All registrations are issued for a two-year period at which time the employee must apply for registration renewal; investigative updates are performed on an annual basis. As well, 47 new VLT siteholder agreements were registered as a result of new installations or changes in site ownership. A total of 7,834 electronic gaming devices, including VLTs, slot machines and lottery ticket terminals were registered for operation by the MLC with the Commission. The Registration Department is continuing to develop Manitoba's new gaming-related supplier registration program. During this fiscal year, six suppliers were granted interim approval, with approvals pending for a further 26 suppliers.

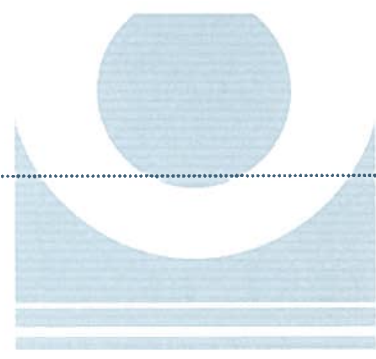
NATIVE GAMING

The Native Gaming Department oversees on-reserve gaming and works closely with First Nations to support adherence to: *The Criminal Code of Canada*; all related provincial legislation such as *The Manitoba Gaming Control Act* and *The Manitoba Lotteries Corporation Act* and accompanying regulations; and all policies related to gaming in the province. First Nations may each establish a Native Gaming Commission on-reserve, or seek MGCC licensing for gaming activities. MGCC First Nations' licences are issued in accordance with the guidelines and procedures that apply to all charitable licensees. First Nations wishing to establish a gaming commission negotiate the terms of such an agreement with Native Gaming Department staff.

A Native Gaming Agreement specifies that the terms and conditions of lottery licences issued by the First Nation's Gaming Commission must be the same as those licensed by the MGCC. Authority to establish a First Nations Gaming Commission is achieved via an Order-in-Council issued by the Provincial Government. As of March 31, 1999, there were: 28 First Nations Gaming Commissions, representing 30 First Nations; 32 on-reserve organizations operating under 49 MGCC licences; and 15 First Nation VLT agreements governing the operation of VLTs on reserve lands.

INSPECTIONS & INVESTIGATIONS

The Inspections & Investigations Department ensures and enforces compliance with the provisions of *The Gaming Control Act* and accompanying regulations. Its main aim is to ensure the integrity of gaming activities carried out in Manitoba. Inspections and investigations activities include random, proactive inspections, review of financial records, and ensuring compliance with regulatory requirements and licensing terms and conditions. Inspections and investigations are also initiated in response to complaints from the general public or internal referrals from other MGCC departments.

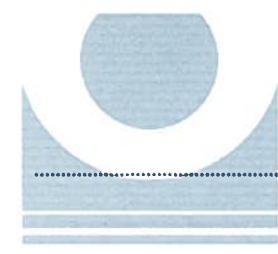


HEARINGS & DISPUTE RESOLUTION

The MGCC is empowered, and in some instances required, to conduct hearings into regulatory infractions and disputes by gaming patrons and suppliers. These hearings must be conducted in accordance with the requirements and procedures set out in *The Gaming Control Act*. In keeping with its authority under the Act, the MGCC has established penalty guidelines for regulatory infractions. Depending upon the infraction, penalties range from a letter of warning to a maximum fine of \$100,000 for penalties assessed under the Act, and up to \$250,000 for penalties assessed against the MLC. During 1998-99, the MGCC was not required to conduct any hearings to resolve disputes or regulatory infractions.

RESEARCH & ADVISORY ROLE

In addition to its regulatory and operational responsibilities, the MGCC conducts research related to gaming activities and provides policy advice to the Provincial Government at the request of the Minister responsible for The Gaming Control Act. While the Commission provides information and advice on a variety of issues related to gaming, the two most significant projects in 1998-99 focussed on municipal VLT plebiscites and First Nations gaming. During the coming year, the MGCC will conduct a review of the provincial VLT program that will examine legislative and regulatory matters, as well as the program's operational aspects.



**MANITOBA GAMING
CONTROL COMMISSION**

Financial Statements
For the year ended March 31, 1999



MANITOBA GAMING CONTROL COMMISSION

Financial Statements

For the year ended March 31, 1999

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Auditors' Report

To the Members of
MANITOBA GAMING CONTROL COMMISSION

We have audited the balance sheet of MANITOBA GAMING CONTROL COMMISSION as at March 31, 1999 and the statements of operations and surplus and changes in financial position for the year then ended. These financial statements are the responsibility of the organization'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 organization as at March 31, 1999 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.

BDO Dunwoody LLP
Chartered Accountants
Winnipeg, Manitoba
June 11, 1999

MANITOBA GAMING CONTROL COMMISSION
Balance Sheet

March 31	1999	1998
Assets		
Current Assets		
Cash	\$ 195,390	\$ 51,720
Short-term investments	1,615,617	1,009,058
Accounts receivable	176,875	42,884
	<u>\$ 1,987,882</u>	<u>\$ 1,103,662</u>
Capital assets (Note 1)	428,173	375,779
	<u>\$ 2,416,055</u>	<u>\$ 1,479,441</u>
Liabilities and Surplus		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 505,499	\$ 244,550
Deferred revenue (Note 2)	1,081,425	1,077,344
	<u>1,586,924</u>	<u>1,321,894</u>
Deferred lease inducements (Note 4)	90,125	46,875
	<u>1,677,049</u>	<u>1,368,769</u>
Surplus	739,006	110,672
	<u>\$ 2,416,055</u>	<u>\$ 1,479,441</u>

On behalf of the Board:



Director



Director

MANITOBA GAMING CONTROL COMMISSION
Statement of Operations and Surplus

March 31	1999	1998
(with comparative amounts for the 6-month period ended March 31, 1998)		
Revenue		
Licence fees	\$ 1,367,682	\$ 632,172
Registration fees	2,000,694	792,381
	<u>3,368,376</u>	<u>1,424,553</u>
Expenses		
Salaries and benefits	1,931,468	1,056,118
Other	145,504	46,289
Rent	136,215	47,353
Legal and professional fees	115,406	122,373
Transportation	115,064	73,692
Communications	87,975	50,863
Commission Board	80,222	44,637
Supplies and services	71,186	69,402
Amortization	60,459	36,105
Accommodations	33,541	19,134
Interest expense	117	4,718
	<u>2,777,157</u>	<u>1,570,684</u>
Income (loss) before other items	<u>591,219</u>	<u>(146,131)</u>
Other Items		
Other income	230	6,291
Interest income	36,885	9,512
Contributions	—	241,000
	<u>37,115</u>	<u>256,803</u>
Excess of revenue for the year	<u>628,334</u>	<u>110,672</u>
Surplus, beginning of year	<u>110,672</u>	<u>—</u>
Surplus, end of year	<u>\$ 739,006</u>	<u>\$ 110,672</u>

MANITOBA GAMING CONTROL COMMISSION
Statement of Changes in Financial Position

For the year ended March 31 (with comparative amounts for the 6-month period ended March 31, 1998)	1999	1998
Cash provided by (used in)		
Operating Activities		
Excess of revenue for the year	\$ 628,334	\$ 110,672
Items not involving cash		
Amortization of capital assets	62,009	37,031
	<u>690,343</u>	<u>147,703</u>
Changes in non-cash working capital balances		
Accounts receivable	(133,991)	(42,884)
Accounts payable and accrued liabilities	260,949	244,550
Deferred revenue	4,081	1,077,344
	<u>821,382</u>	<u>1,426,713</u>
Investing Activities		
Purchase of capital assets	(114,403)	(412,810)
Financing Activities		
Deferred lease inducements	43,250	46,875
Increase in cash during the year	750,229	1,060,778
Cash, beginning of year	1,060,778	-
Cash, end of year	\$ 1,811,007	\$ 1,060,778
Represented by		
Cash	\$ 195,390	\$ 51,720
Short-term investments	1,615,617	1,009,058
	<u>\$ 1,811,007</u>	<u>\$ 1,060,778</u>

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

MANITOBA GAMING CONTROL COMMISSION
Summary of Significant Accounting Policies

March 31, 1999

NATURE OF BUSINESS

The Manitoba Gaming Control Commission was established by The Gaming Control Act. The organization's objectives are to regulate and control gaming activity in the province with the aims of ensuring that gaming activity is conducted honestly, with integrity and in the public interest. The organization began its operations on October 20, 1997.

FINANCIAL INSTRUMENTS

The organization's financial instruments consist of cash, short-term investments, accounts receivable, and accounts payable. Unless otherwise noted, it is management's opinion that the organization is not exposed to significant interest, currency or credit risks arising from these financial instruments.

CAPITAL ASSETS

Capital assets are stated at cost less accumulated amortization. Amortization, based on the estimated useful life of the asset, is calculated as follows:

Equipment	20 % declining balance basis
Furniture and fixtures	10 % declining balance basis
Computer equipment	30 % declining balance basis

REVENUE RECOGNITION

Revenue and expenses are recorded on an accrual basis except for licence fee revenue, which is recognized on a cash receipt basis.

MANITOBA GAMING CONTROL COMMISSION
Notes to Financial Statements

March 31, 1999

1. Capital Assets

	1999			1998
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment	\$ 40,175	\$ 10,091	\$ 30,084	\$ 36,241
Furniture and fixtures	264,808	38,206	226,602	251,780
Computer equipment	222,230	50,743	171,487	87,758
	<u>\$ 527,213</u>	<u>\$ 99,040</u>	<u>\$ 428,173</u>	<u>\$ 375,779</u>

2. Deferred Revenue

Deferred revenue consists of registration fees received to be recognized as revenue in the year in which the related expenses are incurred.

3. Commitments

The organization has an operating lease for its premises at \$10,250 per month, under a lease expiring in 2007.

The minimum annual lease payments for the next five years are as follows:

2000	\$ 123,000
2001	123,000
2002	123,000
2003	123,000
2004	123,000

4. Deferred Lease Inducements

The organization has received lease inducements in the form of a rent-free period of approximately ten months. The benefits arising from these lease inducements are amortized over the term of the lease on a straight-line basis as reductions of rental expense. Rental expense has been reduced by \$10,500 for the period ending March 31, 1999 (\$4,375 in 1998) and an annual reduction in rental expense of approximately \$10,500 is expected for the years 1999 through 2007.

5. Economic Dependence

A substantial portion of the organization's total revenue is derived from Manitoba Lotteries Corporation in the form of registration fees.

6. Pension Plans

Current service contributions are recognized as operating expenses. The organization participates on a fully funded basis and its contributions of \$48,472 (\$10,567 in 1998) represent the total contributions for the year.

7. Comparative Figures

The 1998 figures presented are for the 6-month period ended March 31, 1998.

8. The Year 2000 Issue

Organizations may experience Year 2000 information systems difficulties because many computerized systems use two digits rather than four, to identify a year. It is understood that this may impact organizations' operations and financial reporting, which may result in minor errors to significant system failures.

The Manitoba Gaming Control Commission has recognized this potential difficulty and has addressed this matter as part of its information systems plan. However, the Commission also recognizes that it may not be possible to be certain that all aspects of the Year 2000 issue, particularly those related to clients, customers and other third parties, will be fully resolved.

Board of Commissioners

Archie M. Cham,

Chair - Winnipeg

Ross Bailey,

Member - Gimli

Chair - Regulatory Committee

Charitable Gaming Committee

VLT Committee

Right Reverend Monsignor Michael Buyachok,

Member - Dauphin

Chair - AFM Committee

Charitable Gaming Committee

Native Gaming Committee

Joan Montgomery,

Member - Russell

AFM Committee

Charitable Gaming Committee

Native Gaming Committee

E. Wells Peever,

Member - Winnipeg

Chair - VLT Committee

Native Gaming Committee

Regulatory Committee

Susan Swan,

Member - Lake Manitoba First Nation

Chair - Native Gaming Committee

AFM Committee

VLT Committee

Claudia Weselake,

Member - St. Germain

Chair - Charitable Gaming Committee

Regulatory Committee

VLT Committee