

1997-98 ANNUAL REPORT



**Manitoba Gaming
Control Commission**

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:

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**Manitoba Gaming
Control Commission**

Remarks from the Chair



Changes to the Canadian Criminal Code in the late 1960s set into motion a gaming evolution. It began with the complete prohibition of gaming activities and has resulted in a national environment which includes full scale commercial and charitable casinos, video lottery terminals, national and regional lottery games and sports wagering, community bingos and raffles. While opponents and proponents of gambling may argue that it has gone too far, or not far enough, it appears that gambling, at least in some forms, will continue to be available throughout the country. This evolution and environment has been echoed in Manitoba. And along with the myriad of gaming activities, has come the need for effective and independent regulation of these activities.

So, it is with great pleasure that I make these remarks as the Chair of the new Manitoba Gaming Control Commission (MGCC), the regulatory and licensing body responsible for gaming activities in the Province of Manitoba.

The MGCC was established by the Provincial Government in response to the 1995 Lottery Policy Review Working Group's Report. The Working Group identified the need for independent regulation and urged the appointment of a commission to oversee gaming activities in the province. The introduction and passing of *The Gaming Control Act* in 1996, led to the appointment of an independent seven-member board in early 1997, and the appointment of an Executive Director in early summer. Work to establish the Commission and meet its responsibilities under the new Act then began in earnest. On October 20, 1997, the MGCC officially undertook its responsibilities to regulate and control gaming activity in the province with the aims of ensuring that activities are conducted honestly, with integrity and in the public interest.

The first five months of the MGCC's operation may best be characterized as a time of transition and preparation. The transfer of certain regulatory and licensing responsibilities from the Manitoba Lotteries Corporation, as the previous regulator, was accomplished with a minimum of disruption to clients and charities. A new registration system was also established, ensuring the registration of gaming industry employees, electronic games and commercial gaming agreements. As well, the Commission conducted its first regulatory hearings in accordance with the new Act and accompanying regulations.

In its policy advisory capacity, the Commission commenced work on a review of municipal VLT plebiscites in the province and began to

examine the First Nations Gaming Policy Review Report. It is expected that the VLT Plebiscite Report will be completed in early summer, with the response to the First Nations Report coming in early autumn. In support of these reviews and other responsibilities, the members established four committees to consider and report back to the full Commission on specific issues related to: VLTs and other electronic gaming devices; Native gaming; charitable gaming; and social and economic impacts, including the activities of the Addictions Foundation of Manitoba. It is anticipated that these member driven committees will evolve in keeping with current issues and concerns. In the coming year, the Commission will initiate a review of gaming in the province as recommended by the Working Group. Upon completion, this report will be forwarded to the Provincial Government.

In developing the new Commission and establishing its priorities, the members have identified the importance of taking a leadership role with respect to public education and information about gaming activities. We envision the development and implementation of a long term strategy to educate Manitobans about gaming activities, including awareness of risks and responsibilities, operational aspects, gaming behaviours and social and economic impacts. It is anticipated that this long-term project will assist Manitobans in making informed and appropriate choices with regard to gaming activities and will enhance the MGCC's own regulatory and operational responsibilities.


Recognizing the divergent views on gaming in the province, the MGCC's Commissioners are committed to an independent, balanced and fair approach to regulating and controlling gaming. We look forward to continuing this commitment, accomplishing the tasks already begun, and accepting the challenges inherent in our responsibilities in the coming year and into the future.

In closing, I would like to extend thanks and appreciation to the staff of the MGCC for the work accomplished on behalf of the Commission and in service to Manitobans.



Archie M. Cham
Chair

Remarks from the Executive Director



While the Manitoba Gaming Control Commission (MGCC) officially began operation on October 20, 1997, significant groundwork was laid in the months immediately preceding its establishment. This preparatory work ensured a swift and efficient transition for our clients, charitable organizations and MGCC employees.

In total, 34 employees were transferred from the Manitoba Lotteries Corporation to undertake similar responsibilities with the new Commission. These responsibilities include: licensing charitable bingo and breakopen events, raffles, sports drafts, calcutta auctions, Monte Carlos and wheels of fortune; conducting regular audits and maintaining financial reporting procedures; facilitating Native Gaming Agreements and related activities; as well as, inspection and investigation services. The employees charged with these responsibilities brought with them a wealth of knowledge and experience which have ensured the continued delivery of service and support to charitable organizations, First Nations and other client groups.

Beyond the licensing responsibilities detailed in *The Gaming Control Act*, the new Act also outlines regulatory requirements for registration of gaming industry employees and suppliers, as well as, electronic machines and commercial gaming agreements. During the first several months of operation, the MGCC developed and implemented its own registration practices and procedures, including comprehensive background checks for industry employees and technical compliance requirements for gaming devices.

As an independent body, the MGCC holds a unique advisory position to the Provincial Government with regard to gaming activities in Manitoba. In support of the Commission Members' advisory responsibilities, MGCC staff provided research and information on a variety of matters, including the Municipal VIT Plebiscite Review and the First Nations Gaming Policy Review Report. As well, Commission staff were closely involved in the development of the Addictions Foundation of Manitoba's unique Problem Gambling Assistance Program.

During the coming year, the MGCC plans to undertake several new projects aimed at improving service and business practices. In the fall of 1998, the Commission will begin to implement a business process re-engineering study. The study will form the basis for the development of a new integrated information system which will encompass the MGCC's licensing, registration, audit, inspection and investigation activities. The MGCC also wishes to take advantage of emerging technologies, like the Internet and e-mail to provide enhanced service and information to its clients and Manitoba citizens. As well, the MGCC intends to review the practices and policies with respect to charitable gaming activities with a view to maximizing returns to licensed organizations and the communities they serve.

This document is the Commission's first formal report to the public on its accomplishments, activities and plans for the future. It is our hope that the information provided will give the reader a clear and concise view of the MGCC's roles and responsibilities with regard to gaming activities in Manitoba.

The employees and management of the MGCC look forward to continuing to provide the high calibre of licensing and regulatory services and support which our clients deserve and expect.



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

Operational Overview

The Manitoba Gaming Control Commission (MGCC) was established in October 1997, to regulate and control 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 an independent commission led by a seven-member board, including a Chairperson, appointed from the community. The Board, in addition to its regulatory responsibilities, also serves an advisory role to government on matters related to gaming in the province. And, in accordance with The Act, the Commission may hear and rule on disputes brought forward by gaming patrons or suppliers as part of its dispute resolution function. The MGCC is also responsible for: licensing and monitoring charitable gaming events; registering gaming industry employees and suppliers; conducting gaming inspections and investigations; and registering electronic gaming devices.

The MGCC recognizes the diversity of views with respect to gaming and takes a reasoned and balanced approach toward gaming activities in Manitoba. The MGCC strives, at all times, to treat its employees, clients and the general public with respect, fairness and service beyond question.

Highlights

While the MGCC began operation on October 20, 1997, the information presented in this report represents a full year of operations and activities for the programs and services transferred from the Manitoba Lotteries Corporation (MLC), as well as the new responsibilities assumed by the MGCC upon its establishment. The information is presented in this fashion to ensure consistency with previous years' reporting practices and procedures and to provide a complete picture of the MGCC's activities and responsibilities.

LICENSING & REGISTRATION

The Licensing & Registration Department is responsible for implementing two main programs: licensing charitable gaming; and specific registration functions related to the regulation of gaming in Manitoba.

During 1997-98, a total of 1,307 licences were issued to eligible organizations to conduct specified gaming activities, including bingo, breakopen and raffle events. There were 53 fewer licences issued compared to the previous year, representing a decline of 3.8%. Licensed organizations generated sales of \$106.2 million, and realized net revenues of \$16.3 million after prizes and expenses. These financial results reveal a 4.3% decline in sales and an overall net revenue decline of 10.4% over the previous year. A review of the following chart reveals information about the performance of specific charitable gaming events.

CHARITABLE GAMING (IN \$ MILLIONS)										
Fiscal Year 1997/1998										
Event Type	Licensed Events		Gross Revenue		Prizes Paid		Total Expenses		Net Profit	
	97/98	96/97	97/98	96/97	97/98	96/97	97/98	96/97	97/98	96/97
Bingo	589	616	\$80.0	\$82.7	\$61.0	\$62.9	\$9.6	\$9.7	\$9.4	\$10.1
Breakopen	515	530	\$15.0	\$16.0	\$10.4	\$11.1	\$2.1	\$2.2	\$2.5	\$2.7
Raffle	161	163	\$11.0	\$12.1	\$4.6	\$4.7	\$2.1	\$2.1	\$4.3	\$5.3
Other	42	51	\$0.2	\$0.2	\$0.1	\$0.1	\$0.0	\$0.0	\$0.1	\$0.1
Total Charitable Gaming	1307	1360	\$106.2	\$111.0	\$76.1	\$78.8	\$13.8	\$14.0	\$16.3	\$18.2

The new *Gaming Control Act* requires registration of MLC employees, suppliers, video lottery terminals (VLTs) and other electronic gaming devices and VLT siteholder agreements. To facilitate the immediate transitory requirements, 1,187 existing employees, as of October 20, 1997, were deemed to be registered. Each of these employees applied for renewal of their deemed registration according to their start date, with 253 processed as of the end of the fiscal year. In addition, 189 new employee applicants were processed during the MGCC's first five months of operation. All registrations are issued for a two (2) year period at which time the employee must apply for registration renewal. Investigative updates are performed on an annual basis. Five hundred sixty-seven existing VLT siteholder agreements were also deemed registered when the MGCC began operations in October. Between this time and March 31, 1998, 17 new agreements were registered. These new agreements were issued in response to changes of site ownership and the establishment of new sites. As well, the MGCC maintains a registry of all electronic gaming devices, totalling 7,802 machines, including VLTs, lottery ticket terminals and slot machines located within the province. Development of a supplier registration system will begin early in the 1998-99 fiscal year.

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 which detail gross revenues, prizes, expenses and disbursements. This department received and reviewed approximately 4,200 reports during the fiscal year.

NATIVE GAMING

The Native Gaming Department is responsible for ensuring all gaming on-reserve is conducted in accordance with the Criminal Code of Canada. 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 which apply to all licensees. First Nations wishing to establish a gaming commission negotiate the terms of such an agreement with Native Gaming Department staff. An agreement specifies that the terms and conditions of lottery licences issued by the First Nations 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, 1998, there were: 28 First Nations Gaming Commissions, representing 30 First Nations; 24 on-reserve organizations operating under MGCC licences; and 15 First Nations 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. Inspection and investigation 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. During the 1997-98 fiscal year, the Commission conducted seven (7) hearings. These hearings were conducted in accordance with the requirements and procedures set out in *The Gaming Control Act*. Also in keeping with its authority under The Act, the MGCC 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 section 43(h) of The Act, and up to \$250,000 for penalties assessed against the MLC.

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*. During the first five months, research was conducted in support of the MGCC's review of municipal VLT plebiscites and the First Nations Policy Review Report which were requested by the Minister. It is anticipated that each of these reviews will be completed and forwarded to the Provincial Government in the coming fiscal year.

MANITOBA GAMING CONTROL COMMISSION

Financial Statements

For the period ended March 31, 1998

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Auditors' Report

To the Board of Commissioners of MANITOBA GAMING CONTROL COMMISSION

We have audited the balance sheet of MANITOBA GAMING CONTROL COMMISSION as at March 31, 1998 and the statements of operations and surplus and changes in financial position for the period 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, 1998 and the results of its operations and the changes in its financial position for the period then ended in accordance with generally accepted accounting principles.


BDO Dunwoody
Chartered Accountants

Winnipeg, Manitoba
June 11, 1998

**MANITOBA GAMING CONTROL COMMISSION
Balance Sheet**

March 31, 1998

Assets	
Current Assets	
Cash	\$ 51,720
Short-term investments	1,009,058
Accounts receivable	<u>42,884</u>
	1,103,662
Capital Assets (Note 1)	
	<u>375,779</u>
	\$ 1,479,441
Liabilities and Surplus	
Current Liabilities	
Accounts payable and accrued liabilities	\$ 244,550
Deferred revenue (Note 2)	<u>1,077,344</u>
	1,321,894
Deferred Lease Inducements (Note 4)	
	<u>46,875</u>
	1,368,769
Surplus	
	<u>110,672</u>
	\$ 1,479,441

On behalf of the Board:


Chair


Commissioner

**MANITOBA GAMING CONTROL COMMISSION
Statement of Operations and Surplus**

For the period ended March 31, 1998

Revenue	
Licence fees	\$ 632,172
Registration fees	<u>792,381</u>
	1,424,553
Expenses	
Salaries and benefits	1,056,118
Legal and professional fees	122,373
Transportation	73,692
Supplies and services	69,880
Communications	50,863
Other	46,289
Commission Board	44,637
Amortization	36,105
Accommodations	19,134
Interest expense	4,718
Rent	<u>46,875</u>
	1,570,684
Income (loss) before other items	(146,131)
Other Items	
Other income	6,291
Interest income	9,512
Contributions (Note 7)	<u>241,000</u>
	110,672
Net income for the period	-
Surplus, beginning of period	-
Surplus, end of period	<u>\$ 110,672</u>

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

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

MANITOBA GAMING CONTROL COMMISSION
Statement of Changes in Financial Position

For the period ended March 31, 1998

Cash provided by (used in)	
Operating Activities	
Net income for the period	\$ 110,672
Items not involving cash	37,031
Amortization of capital assets	<u>147,703</u>
Changes in non-cash working capital balances	
Accounts receivable	(42,884)
Accounts payable and accrued liabilities	244,550
Other current liabilities	<u>1,077,344</u>
	<u>1,426,713</u>
Investing Activities	
Purchase of capital assets	<u>(412,810)</u>
Financing Activities	
Deferred lease inducements	<u>46,875</u>
Increase in cash during the period and cash, end of period	\$ 1,060,778
<hr/>	
Represented by	
Cash	\$ 51,720
Short-term investments	<u>1,009,058</u>
	\$ 1,060,778

MANITOBA GAMING CONTROL COMMISSION
Summary of Significant Accounting Policies

March 31, 1998

NATURE OF BUSINESS

The Manitoba Gaming Control Commission was established by *The Gaming Control Act*. The Commission'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 Commission commenced 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, 1998

1. Capital Assets

	1998
	<u> </u>
	<u> </u>
Equipment	\$ 38,839
Furniture and fixtures	264,808
Computer equipment	<u>109,163</u>
	<u>\$ 412,810</u>
	\$ 2,598
	13,028
	<u>21,405</u>
	<u>\$ 37,031</u>
	<u>\$ 375,779</u>

Net book value

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

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, excluding the lease inducements as indicated in note 4, for the next five years are as follows:

1999	\$ 71,750
2000	123,000
2001	123,000
2002	123,000
2003	123,000

4. Deferred Lease Inducements

The organization has received lease inducements in the form of a rent-free period of approximately ten months. At March 31, 1998 the organization had received five months of free rent amounting to \$51,250. 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 \$4,375 for the period ending March 31, 1998 and an annual reduction in rental expense of approximately \$10,500 is expected for the years 1998 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 Commission participates on a fully funded basis and its contributions of \$10,567 represent the total obligations for the year.

7. Contributions

A one-time contribution of \$241,000 was provided by Manitoba Lotteries Corporation in order to assist the Commission during its start-up period.

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 range from minor errors to significant system failures.

The 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