

Financial Statements of

**Saskatchewan Lotteries Trust Fund For Sport,
Culture and Recreation**

Year ended March 31, 2017



INDEPENDENT AUDITORS' REPORT

To: **Members of the Legislative Assembly**
Province of Saskatchewan

We have audited the accompanying financial statements of **Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation**, which comprise the statement of financial position as at March 31, 2017, the statements of operations, remeasurement gains, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation** as at March 31, 2017, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

May 18, 2017
Regina, Saskatchewan, Canada

Virtus Group LLP
Chartered Professional Accountants

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Statement of Financial Position

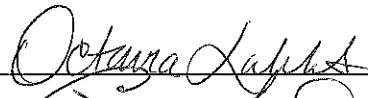
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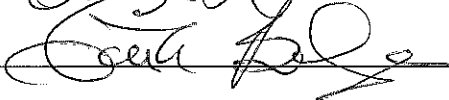
March 31, 2017 with comparative figures for 2016

	2017	2016
Financial assets:		
Cash	\$ 15,650,129	\$ 11,447,430
Accounts receivable	4,316	1,300
Interest receivable	664,333	759,629
Due from Western Canada Lottery - Saskatchewan Division Inc.	10,468,112	9,119,974
Investments (note 3)	88,185,085	93,555,446
	114,971,975	114,883,779
 Liabilities:		
Accounts payable	74,690	66,749
Due to Province of Saskatchewan - General Revenue Fund	32,884	877,768
Grants payable (note 4)	90,135,394	90,543,466
	90,242,968	91,487,983
 Net financial assets	 24,729,007	 23,395,796
 Net financial assets is comprised of:		
Restricted trust fund balances (Schedule 1)	21,769,950	22,358,294
Accumulated remeasurement gains	2,959,057	1,037,502
	\$ 24,729,007	\$ 23,395,796

See accompanying notes to financial statements.

On behalf of the Board:


 _____ Director


 _____ Director

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Statement of Operations

3

Year ended March 31, 2017 with comparative figures for 2016

	Original Budget		
	2017	2017	2016
	(note 8)		
Transfer of net lottery profits from Western Canada			
Lottery - Saskatchewan Division Inc. (Schedule 2)	\$ 60,244,945	\$ 66,483,757	\$ 72,510,501
Less contractual expenses: (note 5)			
Federal Government expenses	2,135,700	2,161,743	2,067,142
Former distributors	1,443,600	1,373,876	1,427,618
Province of Saskatchewan - General Revenue Fund	7,725,000	7,757,884	8,407,768
Saskatchewan Association of Agricultural Societies and Exhibition Associations	310,000	310,000	310,000
	11,614,300	11,603,503	12,212,528
Lottery profits after contractual expenses	48,630,645	54,880,254	60,297,973
Investment income	2,678,500	2,064,097	2,778,935
Less administration expenses (Schedule 3)	899,110	878,261	851,430
Funds available to provide grants	50,410,035	56,066,090	62,225,478
Less grants (Schedule 1)	53,210,678	56,654,434	60,706,576
(Decrease)/increase in restricted trust fund balances	(2,800,643)	(588,344)	1,518,902
Restricted trust fund balances, beginning of year	22,358,294	22,358,294	20,839,392
Restricted trust fund balances, end of year	\$ 19,557,651	\$ 21,769,950	\$ 22,358,294

See accompanying notes to financial statements.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Statement of Remeasurement Gains

4

Year ended March 31, 2017 with comparative figures for 2016

	2017	2016
Accumulated remeasurement gains at beginning of year	\$ 1,037,502	\$ 2,197,201
Unrealized gain/(loss) adjustments attributable to:		
Bank shares	1,175,366	102,587
Pooled funds	746,189	(1,262,286)
Remeasurement gain adjustments for the year	1,921,555	(1,159,699)
Accumulated remeasurement gains at end of year	\$ 2,959,057	\$ 1,037,502

Statement of Cash Flows

Year ended March 31, 2017 with comparative figures for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
(Decrease)/increase in restricted trust fund balances	\$ (588,344)	\$ 1,518,902
Items not affected by cash:		
Unrealized gain/(loss) on investments	1,921,555	(1,159,699)
Net change in non-cash working capital items:		
Accounts receivable	(3,016)	(129)
Interest receivable	95,296	(32,518)
Prepayment to Province of Saskatchewan - General Revenue Fund	-	20,485
Due from Western Canada Lottery - Saskatchewan Division Inc.	(1,348,138)	1,484,258
Accounts payable	7,941	(145,558)
Due to Province of Saskatchewan - General Revenue Fund	(844,884)	877,768
Grants payable	(408,072)	10,436,126
	(1,167,662)	12,999,635
Investing activities:		
Purchase of investments	(22,642,976)	(48,049,908)
Proceeds from disposal of investments	28,013,337	31,724,659
	5,370,361	(16,325,249)
Increase/(decrease) in cash during the year	4,202,699	(3,325,614)
Cash, beginning of year	11,447,430	14,773,044
Cash, end of year	\$ 15,650,129	\$ 11,447,430

See accompanying notes to financial statements.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Notes to Financial Statements

5

March 31, 2017

1. Nature of operations:

The Saskatchewan Lotteries Trust Fund for Sport, Culture and Recreation (the Trust) was established in 1974 and is continued pursuant to the *Interprovincial Lotteries Act 1984* and a Distribution Agreement between the Minister of Parks, Culture and Sport for the Province of Saskatchewan and Sask Sport Inc. Under the terms of the agreement, Sask Sport Inc. has been designated as the provincial marketing organization to sell Western Canada Lottery Corporation lottery tickets in Saskatchewan. Sask Sport Inc. has established the Western Canada Lottery - Saskatchewan Division Inc. to market, and Sask Sport Distributors Inc. to distribute these tickets on its behalf. The current agreement expires March 31, 2019.

The agreement requires that the net lottery profits (detailed in Schedule 2) are transferred to the Trust and further that, after the payments described in note 5, and the expenses of operating the Trust have been paid, all remaining funds be allocated to sport, culture and recreation. The profits (allocated 50% to sport, 35% to culture and 15% to recreation) are restricted for granting to eligible organizations designated by the Minister of Parks, Culture and Sport for the Province of Saskatchewan. The Trust contributes, from each of these three sections, funds to the Saskatchewan Lotteries Community Grant Program in the same percentage as above; and to the Saskatchewan Lotteries Community Development Fund as follows: 40% by sport, 30% by culture and 30% by recreation.

The lottery agreement also requires Sask Sport Inc., as designated provincial marketing organization for lottery tickets, to pay out of the Trust directed payments as described in note 5.

2. Significant accounting policies:

The Trust follows generally accepted accounting principles as recommended by the Public Sector Accounting Board of the CPA Canada.

Basis of accounting and use of estimates:

The preparation of financial statements in accordance with Public Sector Accounting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. Differences are reflected in current revenues and expenses when identified.

Investments:

All equity and pooled fund investments are recorded at fair market value with unrealized gains and losses reported on the Statement of Remeasurement Gains. When such gains and losses become realized they will be reported in the statement of operations. Fixed income investments are recorded at amortized cost.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Notes to Financial Statements

6

March 31, 2017

2. Significant accounting policies (continued):

Grant expense and contractual expenses:

Grants to eligible organizations are recorded when approved by the Trust Committee or the Sask Sport Inc. Board of Directors and all eligibility criteria are met. Contractual expenses are recognized by the Trust as required by the lottery agreement.

Revenue recognition:

Lottery profits are recognized by the Trust in the period they are earned by the Western Canada Lottery – Saskatchewan Division Inc. Investment income is recognized in the period earned. Premiums and discounts on bond investments are amortized to income using the effective interest method.

3. Investments:

	2017		
	Cost	Market Value	Carrying Value
Guaranteed Investment Certificates	\$ 71,766,545	\$ 72,430,364	\$ 71,766,545
Bank Shares	3,757,919	6,361,395	6,361,395
Connor Clark & Lunn Pooled Funds	9,701,564	10,057,145	10,057,145
	\$ 85,226,028	\$ 88,848,904	\$ 88,185,085

	2016		
	Cost	Market Value	Carrying Value
Guaranteed Investment Certificates	\$ 80,060,719	\$ 80,823,524	\$ 80,060,719
Bank Shares	3,535,339	4,963,449	4,963,449
Connor Clark & Lunn Pooled Funds	8,921,886	8,531,278	8,531,278
	\$ 92,517,944	\$ 94,318,251	\$ 93,555,446

Guaranteed investment certificates mature between July 6, 2017 and October 30, 2025 (2016 – July 5, 2016 and October 30, 2025) and have effective interest rates ranging from 1.45% to 2.55% (2016 – 1.45% to 2.55%). Connor Clark and Lunn Pooled Funds consist of managed fixed income and equity investments in pooled funds. As such they have no specified rate of return or maturity. The bank shares have no specified rate of return or maturity. Pooled fund investments are valued at the year-end unit value supplied by the pooled-fund manager, which represents the underlying net assets of the pooled fund at fair value. Guaranteed investment certificates and bank shares are valued at the quoted market value on March 31, which approximates the fair value of the instruments.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Notes to Financial Statements

7

March 31, 2017

4. Grants payable:

	2017	2016
Community Grant Programs	\$ 20,077,967	\$ 21,403,325
Culture	22,263,900	22,982,660
Recreation	7,998,854	7,995,938
Sport	39,794,673	38,161,543
	<u>\$ 90,135,394</u>	<u>\$ 90,543,466</u>

5. Contractual expenses:

Under the terms of an Agreement for the Distribution of Funds with the Minister of Parks, Culture and Sport for the Province of Saskatchewan, the Trust is required to make the following payments to:

- the Federal Government which, under an agreement dated September 23, 1979 with the Interprovincial Lottery Corporation, withdrew from the lottery field in exchange for \$24,000,000 annually, in 1979 dollars. Saskatchewan's share of this payment, for the year ended March 31, 2017, was \$2,161,743 (2016 - \$2,067,142).
- Sask Sport Distributors Inc. to cover the distributor payments made to those volunteer non-profit organizations that previously acted as ticket distributors. This amounted to \$1,373,876 (2016 - \$1,427,618) during the current year. Of this amount, Sask Sport Inc., as a former ticket distributor, received \$358,560 (2016 - \$358,560) during the current year.
- the General Revenue Fund of the Province of Saskatchewan in the amount of 3.75% of net lottery ticket sales (2016 - 3.75% of net lottery ticket sales). During the current year \$7,757,884 (2016 - \$8,407,768) was expensed. For 2018 and 2019 this expense will be reduced by up to \$2.5 million per year. These funds will be paid to Sask Sport Inc to fulfill its annual commitment to the City of Regina to facilitate amateur sport and community based organizations' access to the new Mosaic Stadium field and facilities. This reflects the terms of the agreement for 2018 and 2019.
- the Saskatchewan Association of Agricultural Societies and Exhibition Associations in the amount of \$310,000 (2016 - \$310,000) for the current year.

6. Related party transactions:

These financial statements include transactions with related parties. The Trust is related to all Saskatchewan Crown agencies such as ministries, corporations, boards and commissions under the common control of the Government of Saskatchewan. Also, the Trust is related to non-Crown enterprises that the Government jointly controls.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Notes to Financial Statements

8

March 31, 2017

6. Related party transactions (continued):

These transactions are in the normal course of operations and are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. Other related party transactions and amounts due to/from are disclosed separately in these financial statements.

Sask Sport Inc., as a sport federation, received grants from the Trust of \$4,825,325 (2016 - \$4,236,497) during the current year, to provide programs and services to its member sport organizations. Sask Sport Inc. also received \$13,060 (2016 - \$12,415) as a fee for providing office equipment for use during the current year.

Administrative expenses include direct expenses of the Trust as well as expenses allocated from Sask Sport Inc. based on Sask Sport Inc. resources used in the management and administration of the Trust.

At year end included in accounts payable was a payable to Sask Sport Inc. of \$37,870 (2016 - \$18,394).

The Administration Centres for Sport, Culture and Recreation (1989) Inc., a wholly owned subsidiary of Sask Sport Inc., provides office space and administrative services for non-profit sport, culture and recreation associations and received a grant from the Trust of \$587,800 (2016 - \$570,680) during the current year. In addition, the Trust paid to the Administration Centres for Sport, Culture and Recreation (1989) Inc. \$54,541 (2016 - \$52,433) for office space and services.

7. Financial instruments and risks:

Fair value:

The recorded value of receivables and payables are measured at amortized cost, which approximates their fair value. All equity and pooled fund investments recorded at fair value are measured using inputs from one of three levels. Level 1 inputs are quoted prices readily available from an active market. Level 2 inputs are quoted prices included within Level 1 that are observable either directly or indirectly. Level 3 inputs are fair values not obtained from market data. The Trust fund measures pooled funds based on level 2 inputs. The Trust fund measures bank shares based on level 1 inputs.

Credit and interest rate risk:

The Trust is not subject to significant credit risk. The Trust may be subject to significant interest rate risk relative to certain investments described in Note 3. To mitigate the effects of interest rate changes the Trust applies investing policies that address portfolio mix, maturities, and liquidity.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Notes to Financial Statements

9

March 31, 2017

7. Financial instruments and risks (continued):

Liquidity risk:

The Trust is not subject to significant liquidity risk as its primary receivable is with Western Canada Lottery – Saskatchewan Division Inc. which is well capitalized and has a history of transferring funds in a timely manner. The Trust invests funds based on the timing of its grant obligations and continuously monitors this to ensure these obligations can be met. Its short term investments are highly liquid.

Price risk:

The Trust is subject to price risk through its investment in publicly traded securities and pooled funds. These instruments comprise 19% of the investment portfolio. To mitigate the effects of price risk, the Trust limits its investment portfolio in instruments subject to price changes in the open market but does not use any derivative financial instruments.

8. Budget:

The budget is the original budget that was approved by the Board of Sask Sport Inc. on February 11, 2016.

9. Statement of Changes in Net Assets:

A Statement of Changes in Net Assets has not been prepared as the information is readily apparent from the other financial statements.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Schedule 1 - Restricted Trust Fund Balances

10

Year ended March 31, 2017 with comparative figures for 2016

	Restricted trust fund balances, beginning of year	Allocation of funds available to provide grants	Grants approved - net of returns	Increase/ (decrease) in funds	Restricted trust fund balances, end of year
Community Development	\$ 1,398,833	\$ 3,588,350	\$ (3,604,519)	\$ (16,169)	\$ 1,382,664
Community Grant	1,824,093	5,757,500	(5,234,909)	522,591	2,346,684
Culture	4,136,220	16,531,501	(16,485,829)	45,672	4,181,892
Recreation	3,403,800	6,469,783	(6,149,755)	320,028	3,723,828
Sport	11,595,348	23,718,956	(25,179,422)	(1,460,466)	10,134,882
Total 2017	\$ 22,358,294	\$ 56,066,090	\$ (56,654,434)	\$ (588,344)	\$ 21,769,950
Total 2016	\$ 20,839,392	\$ 62,225,478	\$ (60,706,576)	\$ 1,518,902	\$ 22,358,294

Schedule 2 - Net Lottery Profits

Year ended March 31, 2017 with comparative figures for 2016

	Original Budget		
	2017	2017	2016
	(note 8)		
Lottery ticket sales	\$ 206,000,000	\$ 206,876,907	\$ 224,207,138
Revenue and expense items paid by the Western Canada Lottery Corporation:			
Prizes	(107,584,000)	(105,038,257)	(115,869,663)
Administration and ticket printing	(20,814,070)	(18,695,320)	(18,207,228)
Retailer commissions	(12,059,000)	(11,805,533)	(12,801,975)
Federal and provincial taxes	(1,521,500)	(1,473,678)	(1,529,827)
Investment income	223,800	245,724	302,682
Lottery profits transferred from the Western Canada Lottery Corporation	64,245,230	70,109,843	76,101,127
Provincial interest and other income	234,500	232,777	240,250
Provincial distribution expenses (note 1)	(2,531,685)	(2,317,223)	(2,412,442)
Provincial marketing expenses (note 1)	(1,703,100)	(1,541,640)	(1,418,434)
Net lottery profits	\$ 60,244,945	\$ 66,483,757	\$ 72,510,501

See accompanying notes to financial statements.

Saskatchewan Lotteries Trust Fund For Sport, Culture and Recreation

Schedule 3 - Administration Expenses

11

Year ended March 31, 2017 with comparative figures for 2016

	Original Budget		
	2017	2017	2016
	(note 8)		
Salaries and benefits	\$ 744,140	\$ 747,514	\$ 728,740
Rent	36,600	36,935	35,986
Office supplies	22,000	20,315	18,009
Professional fees	28,830	18,660	17,827
Equipment expense	11,500	13,060	12,415
Printing	8,500	8,052	7,215
Postage	7,000	6,904	6,651
Travel and training	10,600	6,830	3,144
Telephone	7,100	6,342	6,273
Insurance	6,240	5,878	5,866
Committee meetings	10,500	3,399	3,920
Goods and services tax	3,600	2,945	3,205
Repairs and maintenance	2,500	1,427	2,179
Total administration expenses	\$ 899,110	\$ 878,261	\$ 851,430

See accompanying notes to financial statements.