

MALTA GAMING AUTHORITY

Annual Report and Financial Statements

31 December 2019

MALTA GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2019

CONTENTS

	Pages
General Information	2
Report of the Board of Governors of the Authority	3
Independent Auditor's Report	4 - 5
Statement of Comprehensive Income	6
Statement of Financial Position	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
Notes to the Financial Statements	10 - 23
Supplementary Statement: Administrative and Other Expenses	24

MALTA GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2019

GENERAL INFORMATION

Registration

The Malta Gaming Authority (hereinafter referred to as the 'Authority') was established by virtue of the Gaming Act, Chapter 583 of the Laws of Malta.

Board of Governors of the Authority

Heathcliff Farrugia	Chairman (Acting)
Ryan C. Pace	Deputy Chairman
Roberto Francalanza	
Caesar Grech	
Juliana Scerri Ferrante	
Ruth Trapani Galea Feriol	

Chief Executive Officer

Heathcliff Farrugia

Secretary of the Board of the Authority

Adrian Caruana

Head Office

Malta Gaming Authority
Building SCM 02-03, Level 4
SmartCity Malta
Ricasoli SCM1001
Malta

Auditor

Ernst & Young Malta Limited
Certified Public Accountants
Regional Business Centre
Achille Ferris Street
Msida MSD 1751
Malta

MALTA GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2019

REPORT OF THE BOARD OF GOVERNORS OF THE AUTHORITY

The Board of Governors of the Authority (hereinafter referred to as the 'Board') submit their annual report and the audited financial statements for the year ended 31 December 2019.

Principal activity

The Authority was established by virtue of the Gaming Act, Chapter 583 of the Laws of Malta for the purpose of carrying out the functions defined in the said Act.

Results

The operating revenue net of dormant funds generated by the Authority during the year amounted to EUR81,703,563 (2018: EUR75,244,475). After deducting all expenditure of EUR13,210,252 (2018: EUR11,621,185) the Authority registered a surplus for the year of EUR69,333,387 (2018: EUR64,130,495). The Authority transferred EUR 72,295,918 (2018: EUR63,221,963) to the Government of Malta.

Board of Governors of the Authority

The members of the Board of Governors of the Authority who acted in such position during the year under review are listed on page 2.

Chairperson

In accordance with Article 6(4) and the First Schedule of the Gaming Act, Chapter 583 of the Laws of Malta, the Chairperson and the other members of the Board are appointed by the Minister responsible for the gaming sector.

Events after the reporting period


Subsequent to 31 December 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. Due to the recent rapid development of COVID-19, various countries have introduced quarantine and social distancing measures, which had a significant impact on the level and scale of various business activities. While the uncertainty persists particularly as to the length of the pandemic, the potential issues that COVID-19 could present are still evolving and the actual effects are difficult to comprehensively predict. The Authority has assessed the potential impact on its operations and cashflows based on all available information at the time of approving these financial statements and will continue to review its assessment as the situation evolves. From an operational aspect the Authority does not expect the outbreak to have a significant impact on the Authority's operations in view of the fact that the Authority has successfully implemented remote working arrangements. From a financial aspect, the Authority anticipates a potential drop in income, predominantly from land-based gaming and sports remote gaming, whilst introducing cost containment measures. Under this scenario, the Authority expects to have sufficient resources to absorb the impact of COVID-19 including liquidity to meet its obligation as and when they fall due. No adjustments have been made to financial statements as at 31 December 2019 for the impacts of COVID-19.

Auditors

Ernst & Young Malta Limited have expressed their willingness to continue in office and a resolution for their re-appointment will be proposed at the next meeting of the Board of the Authority.

The Report of the Board of the Authority is signed on their behalf by:


Heathcliff Farrugia
Chairman (Acting)


Caesar Grech
Board Member

21 May 2020

INDEPENDENT AUDITOR'S REPORT to the Board of Governors of Malta Gaming Authority

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the Authority, which comprise the statement of financial position as at 31 December 2019 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Authority as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the Gaming Act, Chapter 583 of the Laws of Malta.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Authority in accordance with the International Code of Ethics for Professional Accountants (*including International Independence Standards*) as issued by the International Ethics Standards Board of Accountants (*IESBA Code*) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act, Cap. 281 of the Laws of Malta*, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The other information obtained at the date of the auditor's report is the 2019 Board of Governors Report. The Board is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Board of Governors' Responsibility for the Financial Statements

The Board is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the requirements of the Gaming Act, Chapter 583 of the Laws of Malta, and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board either intend to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.



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INDEPENDENT AUDITOR'S REPORT to the Board of Governors of Malta Gaming Authority - continued

Report on the audit of the financial statements - continued

Auditor's Responsibility

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 Authority's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*The partner in charge of the audit resulting in this independent auditor's report is
Shawn Falzon for and on behalf of
Ernst & Young Malta Limited
Certified Public Accountants*

21 May 2020

MALTA GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2019

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

	Notes	2019 EUR	2018 EUR
Revenue	5	81,703,563	75,244,475
Administrative and other expenses	6	(13,210,252)	(11,621,185)
Operating surplus		68,493,311	63,623,290
Release of unclaimed player's monies		1,024,223	506,867
Increase of provision for claims	14	(35,000)	-
Finance income	8	352	338
Finance costs	17	(149,499)	-
Surplus for the year		69,333,387	64,130,495

The accounting policies and explanatory notes on pages 10 to 23 form an integral part of the financial statements.

MALTA GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2019

STATEMENT OF FINANCIAL POSITION
as at 31 December 2019

	Notes	2019 EUR	2018 EUR
ASSETS			
Non-current assets			
Intangible assets	10	853,387	819,629
Property, plant and equipment	11	7,410,873	3,716,255
		<u>8,264,260</u>	<u>4,535,884</u>
Current assets			
Trade and other receivables	12	7,257,065	10,287,726
Cash at bank and in hand	16	10,058,710	10,253,080
		<u>17,315,775</u>	<u>20,540,806</u>
TOTAL ASSETS		<u><u>25,580,035</u></u>	<u><u>25,076,690</u></u>
EQUITY AND LIABILITIES			
Equity reserve	13	250,000	250,000
Reserve fund	13	4,888,129	7,138,455
National Lottery Reserve Fund	13	-	-
		<u>5,138,129</u>	<u>7,388,455</u>
Non-current liabilities			
Provision for claims	14	925,000	890,000
Finance lease liabilities	17	3,659,673	-
		<u>4,584,673</u>	<u>890,000</u>
Current liabilities			
Trade and other payables	15	15,603,242	16,798,235
Finance lease liabilities	17	253,991	-
		<u>15,857,233</u>	<u>16,798,235</u>
Total liabilities		<u><u>20,441,906</u></u>	<u><u>17,688,235</u></u>
TOTAL EQUITY AND LIABILITIES		<u><u>25,580,035</u></u>	<u><u>25,076,690</u></u>

The accounting policies and explanatory notes on pages 10 to 23 form an integral part of the financial statements.

The financial statements on pages 6 to 23 have been authorised for issue by the Board of the Authority on 21 May 2020 and were signed on their behalf by:

Heathcliff Farrugia
 Chairman (Acting)

Caesar Grech
 Board Member

MALTA GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2019

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2019

	National Lottery Reserve Fund EUR	Reserve Fund EUR	Equity reserve EUR	Total EUR
At 1 January 2019	-	7,138,455	250,000	7,388,455
Appropriation from statement of comprehensive income	969,193	68,364,194	-	69,333,387
Unclaimed prizes transferred in terms of the Gaming Act, Chapter 583 of the Laws of Malta and the applicable regulatory instruments issued thereunder	712,205	-	-	712,205
Payments made to/or on behalf of Government in terms of the Gaming Act, Chapter 583 of the Laws of Malta and the applicable regulatory instruments issued thereunder	(1,681,398)	(70,614,520)	-	(72,295,918)
At 31 December 2019	-	4,888,129	250,000	5,138,129
At 1 January 2018	-	5,539,053	250,000	5,789,053
Appropriation from statement of comprehensive income	1,011,874	63,118,622	-	64,130,495
Unclaimed prizes transferred in terms of the Gaming Act, Chapter 583 of the Laws of Malta and the applicable regulatory instruments issued thereunder	690,869	-	-	690,869
Payments made to/or on behalf of Government in terms of the Gaming Act, Chapter 583 of the Laws of Malta and the applicable regulatory instruments issued thereunder	(1,702,743)	(61,519,220)	-	(63,221,963)
At 31 December 2018	-	7,138,455	250,000	7,388,455

The accounting policies and explanatory notes on pages 10 to 23 form an integral part of the financial statements.

MALTA GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2019

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	Notes	2019 EUR	2018 EUR
Operating activities			
Surplus for the year		69,333,387	64,130,495
Adjustment to reconcile surplus for the year to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment		608,361	472,083
Amortisation of intangible assets		398,423	318,922
Grant Amortisation		176,010	44,971
Increase in provision for doubtful debts		831,214	138,053
Increase in provision for claims		35,000	-
Finance income		(352)	(338)
Working capital adjustments:			
Decrease/Increase in trade and other receivables		2,286,698	(3,131,931)
Decrease/Increase in trade and other payables		(674,474)	4,225,209
Net cash flows from operating activities		72,994,267	66,197,464
Investing activities			
Purchase of property, plant and equipment		(460,891)	(65,347)
Purchase of intangible assets		(432,180)	(417,742)
Interest received		352	338
Net cash flows used in investing activities		(892,719)	(482,751)
Financing activities			
Payments made to Government		(72,295,918)	(63,221,963)
Net cash flows used in financing activities		(72,295,918)	(63,221,963)
Net movement in cash and cash equivalents		(194,370)	2,492,750
Cash and cash equivalents at 1 January		10,253,080	7,760,330
Cash and cash equivalents at 31 December	16	10,058,710	10,253,080

The accounting policies and explanatory notes on pages 10 to 23 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The Authority is established by virtue of the Gaming Act, Chapter 583 of the Laws of Malta. The principal activity of the Authority is to govern and supervise the gaming sector in Malta.

2.1 BASIS OF PREPARATION

These financial statements have been prepared on a historical cost basis and are presented in Euro.

Statement of compliance

These financial statements have been prepared in accordance with IFRS as adopted by the EU and comply with the Gaming Act, Chapter 583 of the Laws of Malta.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Standards, interpretations and amendments to published standards as endorsed by the EU effective in the current year

The financial statements of the Authority have been prepared in accordance IFRS' as adopted by EU and with the Companies Act, Chapter 583 of the Laws of Malta. These have been prepared under the historical cost convention and are presented in Euro, except for derivative financial instruments which have been measured at fair value.

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective during the year:

- IFRS 16 - Leases (effective for financial year beginning on or after 1 January 2019);
- IFRIC 23 - Uncertainty over Income tax treatments (effective for financial year beginning on or after 1 January 2019);
- Amendments to IFRS 9- Prepayment Features with Negative Compensation (effective for financial year beginning on or after 1 January 2019);
- Amendments to IAS 19- Plan Amendment, Curtailment or Settlement (effective for financial year beginning on or after 1 January 2019);
- Amendments to IAS 28- Long-term Interests in Associates and Joint Ventures (effective for financial year beginning on or after 1 January 2019); and
- Annual Improvements to IFRS 2015-2017 Cycle (effective for financial year beginning on or after 1 January 2019).

The adoption of these standards did not have significant impact on the financial statements or performance of the Company.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Authority. The Authority has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

NOTES TO THE FINANCIAL STATEMENTS - continued

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES - continued

Standards, interpretations and amendments to published standards as adopted by the EU which are not yet effective

Up to date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but which are not yet effective for the current reporting year and which the Company has not early adopted but plans to adopt upon their effective date. The changes resulting from these standards are not expected to have a material effect on the financial statements of the Company. The new and amended standards follow:

- Amendments to References to the Conceptual Framework in IFRS (issued on 29 March 2018) (effective for financial year beginning on or after 1 January 2020);
- Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform (issued on 26 September 2019) (effective for financial year beginning on or after 1 January 2020); and
- Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018) (effective for financial year beginning on or after 1 January 2020).

Standards, interpretations and amendments that are not yet endorsed by the EU

Up to date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but which are not yet adopted by the EU. The Company plans to adopt the new standards upon their effective date. The new and amended standards follow:

- IFRS 17 - Insurance Contracts (effective for financial year beginning on or after 1 January 2021);
- Amendments to IFRS 3 Business Combinations (effective for financial year beginning on or after 1 January 2020); and
- Amendments to IAS1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (issued on 23 January 2020).

2.3 IMPACT OF ADOPTING NEW ACCOUNTING STANDARDS IN 2019

IFRS 16 Leases

The Authority adopted IFRS 16 with an application date 1 January 2019. The standard replaces IAS 17 and sets out the principles, measurements and disclosures of leases. The Authority applied the modified retrospective, therefore prior year figures were not adjusted.

In the context of the transition to IFRS 16, right-of-use assets of EUR 4,212,754 and lease liabilities of EUR 4,212,754 were recognized on 1 January 2019. As part of the initial application of IFRS 16 the Authority chose to apply the relief option for low value asset leases. In such cases, the lease payments are recognized as expense in the profit or loss. The Authority utilized the practical expedient to not reassess whether a contract contains a lease.

The following reconciliation to the opening balances for the lease liability as at 1 January 2019 is based on the operating lease obligation as at 31 December 2018:

	EUR
Operating lease obligation as at 31 December 2018	5,223,885
Gross lease obligation as at 31 December 2018	5,223,885
Discounting	1,011,131
Lease liability at 1 January 2019	4,212,754

2.3 IMPACT OF ADOPTING NEW ACCOUNTING STANDARDS IN 2019 - continued

IFRS 16 Leases - continued

The lease liabilities were discounted at their respective incremental borrowing rates as at 1 January 2019. The incremental borrowing rate for each specific lease, or portfolio of leases was determined on the basis of a rate build-up methodological approach where financing spreads and lease spreads adjustments were applied upon a base risk-free reference rate. This approach yielded an incremental borrowing rate of 3.6% varying based on the above described lease characteristics. Alternative estimation approaches were also applied as a cross-check and procedures rates in the same region.

Leases are presented in the income statement for the year ended 31 December 2019 as follows:

	EUR
Finance Costs	
Interest on Right-of-use asset	149,399
Depreciation and Amortisation	
Depreciation of Right-of-use asset	366,327

Disclosure regarding the right of use assets and lease liabilities in the statement of financial position can be found in note 11 and note 17.

3. SUMMARY OF ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are set out below:

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Authority and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable for licenses, compliance contributions and application fees in the normal course of business. All revenue is recognised on the accrual basis. The following specific recognition criteria must also be met before revenue is recognised:

Licences

Revenue is recognised when the licence becomes due. It is accounted for on a straight line basis over the term of the licence.

Application fees

Revenue is recognised upon receiving the consideration together with a valid application form.

Compliance Contribution

Depending on the type of licence, revenue from compliance contributions is either charged on a fixed fee basis or is based on a percentage of the regulated companies' reported revenue, up to a capped amount for remote gaming companies.

Interest income

Interest income is recognised as the interest accrues, unless collectability is in doubt.

Trade and other receivables

Trade receivables are recognised and carried at original amount due less an allowance for any uncollectible amounts. An estimate for impairment is made when collection of the full amount is no longer probable. Impaired debts are derecognised when they are assessed as uncollectible.

Amounts due from related parties are recognised and carried at cost.

NOTES TO THE FINANCIAL STATEMENTS – continued

3. SUMMARY OF ACCOUNTING POLICIES - continued

Impairment of financial assets

The Authority recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Authority expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Authority does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Authority has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Cash and cash equivalents

Cash in hand and at banks and term deposits which are held to maturity are carried at cost. Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash in hand and deposits at banks, net of overdrawn bank balances.

Grant

Grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Authority. Amounts due to related parties are carried at cost.

Intangible assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation expense on intangible assets is recognised in the statement of comprehensive income. Amortisation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	%
Computer software	25

NOTES TO THE FINANCIAL STATEMENTS - continued

3. SUMMARY OF ACCOUNTING POLICIES – continued

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and/or accumulated impairment losses, if any. Depreciation is calculated to write off the cost of the property, plant and equipment on a straight-line basis over their expected useful life as follows:

	%
Leasehold improvements	6.67
Furniture and fittings	10-16.67
Office equipment	16.67-25
Motor vehicles	20
Computer equipment	25

Gains and losses arising on de-recognition upon disposal of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c) there is a change in the determination of whether fulfilment is dependent on a specified asset; or
- d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

Finance leases, which transfer to the Authority substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the statement of comprehensive income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Authority will obtain ownership by the end of the lease term. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS – continued

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing the financial statements, the Board is required to make judgements, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements. These estimates are reviewed on a regular basis and if a change is needed, it is accounted in the period the change becomes known.

Provisions for claims and contingent liabilities

Claims have been made against the Authority by third parties. Judgement is required to determine whether these claims will require an outflow of resources and whether these could be reliably estimated. The Authority quantifies the claims based on the damages and determines the probability of the outflow based on the advice provided by the legal counsel.

Where the Authority believes that the claims would probably result in an outflow of resources and can be reliably estimated, a provision is recognised. Where there is a possible obligation, but probably there will not be an outflow of resources, no provision is recognised whilst a contingent liability is disclosed.

In the opinion of the Board, the accounting estimates, assumptions and judgements other than those mentioned above, made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1 (revised) - 'Presentation of financial statements'.

5. REVENUE

Revenue comprises the following:

	2019	2018
	EUR	EUR
Licence Fees	8,114,631	6,987,413
Application fees	477,605	409,220
Other Revenue	817,276	959,970
Total Authority fees	9,409,512	8,356,603
Compliance Contribution & Levies	72,294,051	66,887,872
Total revenue	81,703,563	75,244,475

Number of licences in issue at end of year:

	2019	2018
	No.	No.
Commercial bingo houses	4	4
Casinos	4	4
Gaming parlours	56	52
National lotteries	1	1
Remote online gaming licences	287	275
Total number of licenses at end of year	352	336

NOTES TO THE FINANCIAL STATEMENTS – continued

6. EXPENSES BY NATURE

	2019	2018
	EUR	EUR
Auditor’s remuneration	26,550	26,550
Chairperson’s emoluments and Board honoraria (note 18)	50,295	43,591
Staff costs (note 7)	7,222,468	6,536,287
General administrative expenses	1,157,603	1,471,933
Professional fees	861,333	1,043,204
Promotional expenses	843,759	849,252
Depreciation and amortisation on property, plant and equipment and intangible fixed assets (notes 10 and 11)	1,197,101	791,007
Provision for doubtful debts (note 12)	831,214	138,053
Contributions to other entities	1,019,929	721,308
	<hr/>	<hr/>
Total administrative and other expenses	13,210,252	11,621,185
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7. EMPLOYEE INFORMATION

a. Staff costs

The total employment costs were as follows:

	2019	2018
	EUR	EUR
Salaries	6,421,681	5,747,979
Social Security costs	395,117	371,367
Fringe benefits	161,005	135,169
	<hr/>	<hr/>
Other related costs	6,977,803	6,254,515
	244,665	281,772
	<hr/>	<hr/>
	7,222,468	6,536,287
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS – continued

7. EMPLOYEE INFORMATION - continued

b. Staff numbers

The number of persons employed by the Authority as at 31 December 2019 and 31 December 2018 was as follows:

	2019	2018
	No.	No.
Finance	10	11
Legal affairs	7	6
Enforcement including a staff complement dedicated to AML	59	59
Regulatory	43	38
Information systems	14	11
Human resources and administration	19	21
Programme management and Information management	9	9
Chief Executive Officer's Office	6	5
Internal audit	2	4
Other	0	1
Total	169	165

8. FINANCE INCOME

	2019	2018
	EUR	EUR
Interest receivable on bank balances	352	338

9. TAXATION

No provision for Malta income tax has been made in these financial statements as the Authority's income is exempt from any liability to income tax.

MALTA GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS – continued

10. INTANGIBLE FIXED ASSETS

Intangible fixed assets pertain to software costs of the Authority. The movement in intangible fixed assets is as follows:

	Computer Software EUR
Cost	
At 1 January 2018	1,111,542
Additions	417,742
Transfers	74,473
At 31 December 2018	1,603,757
Additions	432,180
Transfers	-
At 31 December 2019	2,035,937
Amortisation	
At 1 January 2018	448,003
Amortisation for the year	336,124
At 31 December 2018	784,127
Amortisation for the year	398,423
At 31 December 2019	1,182,550
Net book value	
At 31 December 2019	853,387
At 31 December 2018	819,629

11. PROPERTY, PLANT AND EQUIPMENT

11.1 Property, Plant and Equipment owned by the Authority

	Leasehold Improvements EUR	Furniture and fittings EUR	Office equipment EUR	Motor vehicles EUR	Computer equipment EUR	Total EUR
Cost						
At 1 January 2018	3,112,193	1,540,721	531,382	151,128	661,640	5,997,064
Additions	-	-	4,907	-	60,440	65,347
Transfers	-	-	-	-	(74,473)	(74,473)
At 31 December 2018	3,112,193	1,540,721	536,289	151,128	647,607	5,987,938
Additions	2,203	36,236	1,021	-	421,431	60,891
Disposals	-	-	(4,339)	-	-	(4,339)
At 31 December 2019	3,114,396	1,576,957	532,971	151,128	1,069,038	6,444,490
Depreciation						
At 1 January 2018	539,905	346,116	317,780	112,340	455,690	1,771,831
Depreciation charge for the year	186,945	169,558	78,055	20,082	45,212	499,852
At 31 December 2018	726,850	515,674	395,835	132,422	500,902	2,271,683
Depreciation charge for the year	204,004	171,638	72,280	15,163	145,276	608,361
At 31 December 2019	930,854	687,312	468,115	147,585	646,178	2,880,044
Net book value						
At 31 December 2019	2,183,542	889,645	64,856	3,543	422,860	3,564,446
At 31 December 2018	2,385,343	1,025,047	140,454	18,706	146,705	3,716,255

MALTA GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS – continued

11. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

11.1 Property, Plant and Equipment owned by the Authority - continued

The Authority has moved into new premises during November 2015. The Authority has undertaken significant improvements to these new premises. Whilst most of the improvements have been in place as at year end, the project was fully completed in the first quarter of 2016.

11.2 Right-of-use asset – Leasehold Property

	2019	2018
	EUR	EUR
IFRS 16 adjustment	4,212,754	-
Cost at 31 December 2019	<u>4,212,754</u>	-
Depreciation for the year	366,327	-
Accumulated Depreciation at 31 December 2019	<u>366,327</u>	-
Net book Value at 31 December 2019	<u><u>3,846,427</u></u>	-

12. TRADE AND OTHER RECEIVABLES

	2019	2018
	EUR	EUR
Compliance Contribution, Levies and Licences receivable and accrued income (note i,ii,iii)	6,609,029	9,566,055
Prepaid expenses	376,135	449,770
Deposits and Other Receivables	271,901	271,901
	<u>7,257,065</u>	<u>10,287,726</u>

(i) At 31 December 2019, Compliance Contribution, Levies and Licences receivable at nominal value of EUR2,589,193 (2018: EUR1,757,979) were impaired and fully provided for (Note 12).

Provision for doubtful debts	2019	2018
	EUR	EUR
Opening balance	1,757,979	1,619,926
Increase in provision for doubtful debts	831,214	138,053
Closing balance	<u><u>2,589,193</u></u>	<u>1,757,979</u>

NOTES TO THE FINANCIAL STATEMENTS – continued

12. TRADE AND OTHER RECEIVABLES - CONTINUED

- (ii) As at the balance sheet date, the ageing analysis of Compliance Contribution, Levies and Licences receivable is as follows:

	Total EUR	Neither past due nor impaired EUR	Past due but not impaired			
			<30 days EUR	31-60 days EUR	61-90 days EUR	>90 days EUR
2019	6,609,029	5,832,202	435,485	71,407	22,595	247,340
2018	9,566,055	6,478,384	652,878	1,417,053	898,014	119,726

- (iii) Accrued income included with Compliance Contribution, Levies and Licences receivable comprise of compliance contribution payable to the Authority for which no request for payment has been issued yet.

13. RESERVES

a. Equity reserve

Funds for the creation of the Reserve have been retained from the gaming taxes collected. This was transferred to Equity reserve with approval of the Ministry of Finance.

b. Reserve Fund

The Reserve Fund represents accumulated excess of revenue over expenditure.

c. Unclaimed Prizes Reserve

The National Lottery Licensee is to pay funds standing in its unclaimed prizes reserve to the Authority. The Authority shall allocate such funds in accordance with the Gaming Act (Chapter 583 of the Laws of Malta) and any other applicable regulatory instruments issued thereunder.

14. PROVISION FOR CLAIMS AND CONTINGENT LIABILITIES

Provision for claims

During 2014, a gaming operator initiated, court proceedings against the Authority claiming loss of profits from the Authority in the region of EUR800,000. Other provisions estimated at EUR90,000 already recognised at 31 December 2018 continued to be recognised as at 31 December 2019 while additional provisions of EUR35,000 were recognised during the year. The Authority with the assistance of legal counsel rebuts these claims.

Contingent Liabilities

During 2016 an operator-initiated court proceedings against the Authority. The Authority is contesting these claims and continues to follow the advice of its legal counsel. Court proceedings are in the initial stages and the damages, if any, cannot be reliably estimated. Accordingly, no provision for any liability has been made in these financial statements.

Up to the date of the authorisation of these financial statements, there were no other material claims made against the Authority that are expected to lead to a possible obligation.

MALTA GAMING AUTHORITY
Annual Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS – continued

15. TRADE AND OTHER PAYABLES

	2019	2018
	EUR	EUR
Unclaimed deposits (note i)	8,530,803	8,733,492
Trade and Other payables	518,709	604,576
Advances received from operators	1,218,419	2,289,038
Accruals	631,881	765,759
Deferred income	4,703,430	4,405,370
	15,603,242	16,798,235

- i. Balance includes unclaimed player deposits and dormant accounts from Remote Gaming operators which are passed on to the Authority by the licensee when no transactions have been recorded on players' account for more than thirty months.

16. CASH AND CASH EQUIVALENTS

Cash and short-term deposits consist of cash in hand and balance with banks. Cash and cash equivalents included in the statement of cash flows reconcile to the statement of financial position amounts as follows:

	2019	2018
	EUR	EUR
Cash at bank and in hand	10,058,710	10,253,080

17. FINANCE LEASE LIABILITIES

	2019	2018
	EUR	EUR
<i>Current</i>		
Finance Lease Liabilities (i)	253,991	-
<i>Non-Current</i>		
Finance Lease Liabilities (i)	3,659,673	-

- (i) Finance lease liabilities bear interest at the rate of 3.6% per annum

NOTES TO THE FINANCIAL STATEMENTS – continued

18. RELATED PARTY DISCLOSURES

Related party	Year	Total transactions with related parties EUR	Amounts owed to related parties at year end EUR	Type of transaction
Government of Malta - The Treasury	2019	72,295,918	-	Payments made to/ on behalf of gov
Government of Malta - The Treasury	2018	63,221,963	-	Payments made to/ on behalf of gov

Key management personnel

The Chairperson and the Board are considered to be key management personnel. Included in 'Administrative and other expenses' (note 6) are salaries paid to the Chairperson and Board amounting to EUR50,295 (2018: EUR43,591).

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

At the year end, the Authority's main financial assets on the statement of financial position comprise trade and other receivables, and cash at bank and in hand. At the year end, there were no financial assets off the statement of financial position.

At the year end, the Authority's main financial liabilities on the statement of financial position consisted of amounts due to government, other payables, accruals and deferred income.

Contractual maturity profile of financial liabilities

The presentation of the financial assets and liabilities listed above under the current and non-current headings within the statement of financial position is intended to indicate the timing in which cash flows will arise. The maturity profile of the financial liabilities of the Authority as at year end is as disclosed in note 15 and 17.

Credit risk

The Authority trades only with licensed, creditworthy third parties. Receivable balances are monitored on an ongoing basis with the result that the Authority's exposure to impaired debts is not significant. Carrying amounts for trade receivables are stated net of any impairment provisions, when necessary, which are prudently made against debts in respect of which management reasonably believes that recoverability is doubtful. Credit risk with respect to debts is limited due to the number of licensees comprising the Authority's debtors' base. The Authority's cash at bank is placed with quality financial institutions. The Authority has no significant concentration of credit risk.

Liquidity risk

Liquidity risk is the risk the Authority will not be able to meet its financial obligations as they fall due. The Authority's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal or stressed conditions, without incurring unacceptable losses or risking damage to the Authority's reputation.

19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES - continued

Fair values

The carrying amounts of cash at bank and in hand, trade receivables, trade payables and accrued expenses approximated their fair values.

Interest rate risk

With the exception of cash and bank balances, the value of the Authority's assets and liabilities are not subject to interest-rate movements.

20. SUBSEQUENT EVENTS

Subsequent to 31 December 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. Due to the recent rapid development of COVID-19, various countries have introduced quarantine and social distancing measures, which had a significant impact on the level and scale of various business activities. While the uncertainty persists particularly as to the length of the pandemic, the potential issues that COVID-19 could present are still evolving and the actual effects are difficult to comprehensively predict. The Authority has assessed the potential impact on its operations and cashflows based on all available information at the time of approving these financial statements and will continue to review its assessment as the situation evolves. From an operational aspect the Authority does not expect the outbreak to have a significant impact on the Authority's operations in view of the fact that the Authority has successfully implemented remote working arrangements. From a financial aspect, the Authority anticipates a potential drop in income, predominantly from land-based gaming and sports remote gaming, whilst introducing cost containment measures. Under this scenario, the Authority expects to have sufficient resources to absorb the impact of COVID-19 including liquidity to meet its obligation as and when they fall due. No adjustments have been made to financial statements as at 31 December 2019 for the impacts of COVID-19.

MALTA GAMING AUTHORITY
Supplementary Statement for the year ended 31 December 2019

ADMINISTRATIVE AND OTHER EXPENSES

	31 December 2019		31 December 2018	
	EUR	EUR	EUR	EUR
Salaries and national insurance	7,222,468		6,536,287	
Training	140,437		100,725	
Other staff costs	16,388		13,603	
Staff and ancillary costs		7,379,293		6,650,615
Chairperson's emoluments and Board honoraria	50,295		43,951	
Subcontracted services	14,528		9,788	
Telecommunications	50,717		56,789	
IT and Ancillary Costs	446,794		344,399	
Water and electricity	43,812		43,468	
Rent	1,865		374,489	
Insurance and licences	60,972		58,805	
Postage, stationery and printing	45,753		55,821	
Office expenses	27,265		24,166	
Motor vehicle running expenses	59,293		59,270	
Bank charges	6,796		4,620	
Cleaning expenses	12,570		11,284	
Subscriptions	129,463		66,722	
Repairs and maintenance	107,022		141,156	
Business development expenses	9,967		14,075	
Overseas travelling	135,505		86,694	
Seminars and conferences	5,281		6,059	
General administrative expenses		1,207,898		1,401,197
Professional fees	189,292		689,658	
Auditors' remuneration	26,550		26,550	
Due Diligence consultancy fees	485,621		291,065	
Legal fees	29,595		62,481	
Professional fees		731,058		1,069,754
Promotional Expenses		843,759		849,252
Depreciation and amortisation		1,197,101		791,007
Provision for doubtful debts		831,214		138,053
Contributions to other entities		1,019,929		721,308
		13,210,252		11,621,185