

# **Alcohol and Gaming Commission of Ontario**

**Financial Statements**

**March 31, 2022**

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## Management's Statement of Responsibility for Financial Reporting

The accompanying financial statements of the Alcohol and Gaming Commission of Ontario have been prepared by management in accordance with the Canadian public sector accounting standards and, where appropriate, include amounts based on management's best estimates and judgements. The financial statements have been properly prepared within reasonable limits of materiality and are based on information available up to August 10, 2022.

Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded, and reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities.

The Board of Directors ensures that management fulfills its responsibilities for financial information and internal control through a Financial, Audit and Risk Management (FARM) committee. The FARM committee meets with management and internal audit regularly to review the policies and procedures.

The financial statements have been examined by the Office of the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the financial statements are prepared in accordance with Canadian public sector accounting standards. The Independent Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:

Tom Mungham

Chief Executive Officer & Registrar

Date: August 10, 2022

Joseph Pittari

Chief Administrative Officer

Date: August 10, 2022



## INDEPENDENT AUDITOR'S REPORT

To the Alcohol and Gaming Commission of Ontario

### Opinion

I have audited the financial statements of the Alcohol and Gaming Commission of Ontario (the AGCO), which comprise the statements of financial position as at March 31, 2022 and March 31, 2021, and the statements of operations and accumulated deficit, change in net debt and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the AGCO as at March 31, 2022 and March 31, 2021, and the results of its operations and accumulated deficit, changes in its net debt and its cash flows for the years then ended in accordance with Canadian public sector accounting standards.

### Basis for Opinion

I conducted my audits in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the AGCO in accordance with the ethical requirements that are relevant to my audits of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the AGCO'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 AGCO either intends to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the AGCO's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards 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 Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 AGCO's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's 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 AGCO's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the AGCO to cease to continue as a going concern.
- 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.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Toronto, Ontario  
August 10, 2022



Bonnie Lysyk, MBA, FCPA, FCA, LPA  
Auditor General

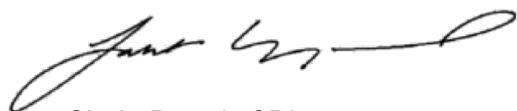
## Alcohol and Gaming Commission of Ontario

### Statement of Financial Position (\$'000)

| As at March 31, 2022                     | Note(s)            | 2022            | 2021            |
|--|--------------------|-----------------|-----------------|
| <b>Liabilities</b>                       |                    |                 |                 |
| Accounts Payable and Accrued Liabilities | <a href="#">4</a>  | \$ 9,298        | \$ 8,016        |
| Deferred Licence Revenue                 | <a href="#">5</a>  | 32,958          | 19,086          |
| Other Employee Future Benefits           | <a href="#">6</a>  | 7,245           | 8,145           |
| Security and Customer Deposits           | <a href="#">7</a>  | 7,720           | 4,380           |
|  |                    | <b>57,221</b>   | <b>39,627</b>   |
| <b>Financial Assets</b>                  |                    |                 |                 |
| Cash                                     |                    | —               | —               |
| Accounts Receivable                      | <a href="#">8</a>  | 422             | 829             |
| Due from iGaming Ontario                 | <a href="#">16</a> | 7,264           | —               |
| Prepaid Expenses                         |                    | 372             | 321             |
| Due from the Province                    | <a href="#">9</a>  | 34,949          | 24,969          |
|  |                    | <b>43,007</b>   | <b>26,119</b>   |
| <b>Net Debt</b>                          |                    | <b>(14,214)</b> | <b>(13,508)</b> |
| <b>Non-Financial Assets</b>              |                    |                 |                 |
| Tangible Capital Assets                  | <a href="#">10</a> | 14,214          | 13,508          |
| <b>Accumulated Deficit</b>               |                    | <b>\$ —</b>     | <b>\$ —</b>     |

See accompanying notes to the financial statements.

On Behalf of the Board:



Chair, Board of Directors



Chair, Financial, Audit and Risk Management Committee

## Alcohol and Gaming Commission of Ontario

### Statement of Operations and Accumulated Deficit (\$'000)

| For the Year Ended March 31, 2022             | Note(s)                | 2022<br>Budget | 2022<br>Actual  | 2021<br>Actual  |
|---|------------------------|----------------|-----------------|-----------------|
| <b>Revenue</b>                                |                        |                |                 |                 |
| Fees, Licences and Registrations              | <a href="#">5</a>      | \$ 18,650      | \$ 29,172       | \$ 22,649       |
| Recoveries - Gaming Sector                    | <a href="#">12</a>     | 71,992         | 19,735          | 13,446          |
| Recoveries - iGaming Ontario                  | <a href="#">16</a>     | —              | 7,264           | —               |
| Other Revenue                                 |                        | 151            | 82              | 192             |
|   | <a href="#">11, 15</a> | <b>90,793</b>  | <b>56,253</b>   | <b>36,287</b>   |
| <b>Expenditures</b>                           |                        |                |                 |                 |
| Salaries and Wages                            | <a href="#">12</a>     | 67,179         | 66,229          | 61,408          |
| Services                                      |                        | 20,046         | 17,987          | 11,927          |
| Employee Benefits                             | <a href="#">6, 12</a>  | 12,783         | 14,972          | 13,910          |
| Amortization of Tangible Capital Assets       | <a href="#">10</a>     | 3,130          | 1,771           | 1,631           |
| Transportation and Communications             |                        | 3,026          | 965             | 925             |
| Supplies and Equipment                        |                        | 1,748          | 812             | 433             |
| Bad Debts                                     |                        | —              | 7               | —               |
|   |                        | <b>107,912</b> | <b>102,743</b>  | <b>90,234</b>   |
| <b>Annual Deficit from Operations</b>         |                        |                | <b>(46,490)</b> | <b>(53,947)</b> |
| <b>Contribution by the Province</b>           | <a href="#">9</a>      |                | <b>46,490</b>   | <b>53,947</b>   |
| <b>Annual Deficit</b>                         |                        |                | <b>—</b>        | <b>—</b>        |
| <b>Accumulated Deficit, Beginning of Year</b> |                        |                | <b>—</b>        | <b>—</b>        |
| <b>Accumulated Deficit, End of Year</b>       |                        |                | <b>\$ —</b>     | <b>\$ —</b>     |

See accompanying notes to the financial statements.

## Alcohol and Gaming Commission of Ontario

### Statement of Change in Net Debt (\$'000)

| For the Year Ended March 31, 2022       | Note(s)            | 2022<br>Budget     | 2022<br>Actual     | 2021<br>Actual     |
|---|--------------------|--------------------|--------------------|--------------------|
| <b>Annual Deficit</b>                   |                    | <b>\$</b>          | <b>—</b>           | <b>\$</b>          |
| Acquisition of Tangible Capital Assets  | <a href="#">10</a> | (7,863)            | (2,477)            | (1,121)            |
| Amortization of Tangible Capital Assets | <a href="#">10</a> | 3,130              | 1,771              | 1,631              |
|   |                    | <b>(4,733)</b>     | <b>(706)</b>       | <b>510</b>         |
| <b>(Increase) Decrease in Net Debt</b>  |                    | <b>(4,733)</b>     | <b>(706)</b>       | <b>510</b>         |
| <b>Net Debt, Beginning of Year</b>      |                    | <b>(13,508)</b>    | <b>(13,508)</b>    | <b>(14,018)</b>    |
| <b>Net Debt, End of Year</b>            |                    | <b>\$ (18,241)</b> | <b>\$ (14,214)</b> | <b>\$ (13,508)</b> |

See accompanying notes to the financial statements.

## Alcohol and Gaming Commission of Ontario

### Statement of Cash Flows (\$'000)

For the Year Ended March 31, 2022

|   | <u>2022</u>    | <u>2021</u>    |
|---|----------------|----------------|
| <b>Operating Transactions</b>                         |                |                |
| Annual Deficit  | \$ —           | \$ —           |
| <b>Non-Cash Items:</b>                                |                |                |
| Amortization of Tangible Capital Assets               | 1,771          | 1,631          |
| <b>Changes in Non-Cash Balances:</b>                  |                |                |
| Increase in Accounts Payable and Accrued Liabilities  | 1,282          | 1,396          |
| Increase (Decrease) in Deferred Licence Revenue       | 13,872         | (3,572)        |
| (Decrease) Increase in Other Employee Future Benefits | (900)          | 135            |
| Increase (Decrease) in Security and Customer Deposits | 3,340          | (2,689)        |
| Decrease (Increase) in Accounts Receivable            | 407            | (611)          |
| (Increase) in Due from iGaming Ontario                | (7,264)        | —              |
| (Increase) in Prepaid Expenses                        | (51)           | (246)          |
| (Increase) Decrease in Due from the Province          | (9,980)        | 5,077          |
| <b>Cash Provided by Operating Transactions</b>        | <u>2,477</u>   | <u>1,121</u>   |
| <b>Capital Transactions</b>                           |                |                |
| Acquisition of Tangible Capital Assets                | (2,477)        | (1,121)        |
| <b>Cash Applied to Capital Transactions</b>           | <u>(2,477)</u> | <u>(1,121)</u> |
| <b>Net Increase (Decrease) in cash</b>                | <u>—</u>       | <u>—</u>       |
| <b>Cash, Beginning of Year</b>                        | <u>—</u>       | <u>—</u>       |
| <b>Cash, End of Year</b>                              | <u>\$ —</u>    | <u>\$ —</u>    |

See accompanying notes to the financial statements.

## Alcohol and Gaming Commission of Ontario

### Notes to the Financial Statements For the Year Ended March 31, 2022 (\$'000)

#### 1. Nature of operations

The Alcohol and Gaming Commission of Ontario (AGCO) is a regulatory board-governed agency incorporated without share capital, that reports to the Ministry of the Attorney General (MAG). The agency was established on February 23, 1998 under the *Alcohol and Gaming Regulation and Public Protection Act, 1996*, which was amended in 2018 and re-named the *Alcohol, Cannabis and Gaming Regulation and Public Protection Act, 1996* (ACGRPPA) when the AGCO became responsible for the regulation of retail cannabis sales. On November 29, 2021, the ACGRPPA was repealed and the *Alcohol and Gaming Commission of Ontario Act, 2019* (AGCO Act) was proclaimed into force, continuing the AGCO under a new statute.

The AGCO is responsible for regulating the alcohol, gaming, horse racing and cannabis retail sectors in accordance with the principles of honesty and integrity, and in the public interest. In so doing, the AGCO administers the *Liquor Licence and Control Act, 2019*, the *Gaming Control Act, 1992*, the *Horse Racing Licence Act, 2015* and the *Cannabis Licence Act, 2018*. The AGCO also administers the charity lottery licensing Order-in-Council 1413/08.

iGaming Ontario was established on July 6, 2021 as a subsidiary corporation of the AGCO. See [Note 16](#) for further disclosure pertaining to the AGCO's relationship with iGaming Ontario.

As a regulatory agency with a governing board reporting to MAG, the AGCO receives its annual spending authority from the Ministry's printed estimates, as approved by the Ontario Legislature. The AGCO is funded from a combination of revenue from the Consolidated Revenue Fund and charges to the regulated sectors (fees and cost recoveries).

Pursuant to the *Income Tax Act*, the AGCO is exempt from income taxes.

#### 2. Adoption of Canadian public sector accounting standards

Effective April 1, 2020, the AGCO has adopted Canadian public sector accounting standards (PSAS). Prior to issuing these financial statements, the AGCO prepared a Statement of Revenue and Expenditures on a cash basis of accounting for the first time in the fiscal year 2020-21.

## Alcohol and Gaming Commission of Ontario

### Notes to the Financial Statements For the Year Ended March 31, 2022 (\$'000)

#### 3. Significant accounting policies

##### a. Basis of accounting

These financial statements have been prepared in accordance with PSAS established by the Canadian Public Sector Accounting Board. The significant accounting policies used to prepare these statements are summarized below.

##### b. Currency

The financial statements are presented in Canadian dollars.

At the transaction date, revenue or expenditures in currencies other than the AGCO's functional currency are recognized in Canadian dollars at the exchange rate in effect at that date. The AGCO is not impacted by the remeasurement gains and losses caused by foreign currency, because its cash, including foreign exchange rates, is handled by the Ministry of Public and Business Service Delivery (formerly known as the Ministry of Government and Consumer Services) without charge.

##### c. Revenue recognition

Fee revenue from licences, registrations and permits collected from the liquor, gaming, horse racing and cannabis-retail sectors are recorded in the fiscal year that they are issued. For the term of licences beyond the current fiscal year, the AGCO records deferred licence revenue as a liability and recognizes revenue over the term of licences.

The AGCO is authorized to recover costs of its regulatory activities in accordance with the *Alcohol and Gaming Commission of Ontario Act, 2019* (AGCO Act). The AGCO records a deposit liability (included in Security and Customer Deposits) when amounts are received. Recoveries are recognized as revenue (included in Recoveries - Gaming Sector) as the related regulatory costs are incurred, which settles the deposit liability. Currently, costs for regulatory activities are only being recovered from the gaming sector.

Other revenue includes recovery of prior year's expenditures and awarded costs from court received in the fiscal year.

##### d. Expenditures recognition

Expenditures are recognized on an accrual basis. Expenditures are recognized in the fiscal year that the events giving rise to the expense occur and resources are consumed.

##### e. Financial instruments

All financial instruments are included on the Statement of Financial Position and are measured initially at fair value and subsequently at cost.

## Alcohol and Gaming Commission of Ontario

### Notes to the Financial Statements For the Year Ended March 31, 2022 (\$'000)

#### 3. Significant Accounting Policies (continued)

##### f. Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets.

The cost of tangible assets is amortized on a straight-line basis over estimated useful lives as follows:

|                                 | <u>Useful life</u> |
|---------------------------------|--------------------|
| Business application software   | 10 years           |
| Information technology hardware | 3 - 6 years        |

Assets under construction are not amortized until construction is complete and the assets are ready for their intended use.

##### g. Use of estimates

In preparing the financial statements, management is required to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods.

Items requiring the use of significant estimates include: useful life of capital assets and other employee future benefits.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

##### h. Future changes in accounting standards

###### (a) PS 3400 - Revenue

The new standard provides a framework for recognizing revenue by distinguishing between revenue arising from transactions that include performance obligations, referred to as exchange transactions, and those that do not have performance obligations, referred to as non-exchange transactions. While the impact of any changes on the AGCO's financial statements is not reasonably determinable at this time, the AGCO intends to implement the standard effective April 1, 2023, for the fiscal year 2023-24.

## Alcohol and Gaming Commission of Ontario

### Notes to the Financial Statements For the Year Ended March 31, 2022 (\$'000)

#### 4. Accounts payable and accrued liabilities

|                                 | <b>2022</b>     | <b>2021</b>     |
|---------------------------------|-----------------|-----------------|
| Accounts payable                | \$ 1,145        | \$ 1,189        |
| Operational expenses accruals   | 4,155           | 3,230           |
| Accrued other employee benefits | 3,736           | 3,592           |
| Capitalized assets accruals     | 262             | 5               |
|                                 | <b>\$ 9,298</b> | <b>\$ 8,016</b> |

Accounts payable relate largely to normal business transactions with third-party vendors and subject to standard provincial government payment terms.

Operational expenses accruals relate to goods or services received but that have not been paid, including regular salaries and wages, employee benefits and normal operating expenses.

Accrued other employee benefits include employee vacation credits accruals and salary continuance arrangements.

#### 5. Deferred licence revenue

Deferred licence revenue represents payments received for licences with terms that extend beyond the current operating cycle. Changes in the deferred licence revenue balances during the current fiscal year are summarized as follows:

|              | <b>2022</b>                           |                                 |                                   |                                 |
|--------------|---------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
|              | <b>Balance,<br/>beginning of year</b> | <b>Received<br/>during year</b> | <b>Recognized<br/>during year</b> | <b>Balance,<br/>end of year</b> |
| Cannabis     | \$ 12,660                             | \$ 4,744                        | \$ (7,860)                        | \$ 9,544                        |
| Gaming       | 466                                   | 15,484                          | (3,045)                           | 12,905                          |
| Horse Racing | 324                                   | 1,330                           | (783)                             | 871                             |
| Liquor       | 5,636                                 | 8,879                           | (4,877)                           | 9,638                           |
|              | <b>\$ 19,086</b>                      | <b>\$ 30,437</b>                | <b>\$ (16,565)</b>                | <b>\$ 32,958</b>                |

|              | <b>2021</b>                           |                                 |                                   |                                 |
|--------------|---------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
|              | <b>Balance,<br/>beginning of year</b> | <b>Received<br/>during year</b> | <b>Recognized<br/>during year</b> | <b>Balance,<br/>end of year</b> |
| Cannabis     | \$ 8,239                              | \$ 8,067                        | \$ (3,646)                        | \$ 12,660                       |
| Gaming       | 4,217                                 | 255                             | (4,006)                           | 466                             |
| Horse Racing | 507                                   | 505                             | (688)                             | 324                             |
| Liquor       | 9,695                                 | 1,675                           | (5,734)                           | 5,636                           |
|              | <b>\$ 22,658</b>                      | <b>\$ 10,502</b>                | <b>\$ (14,074)</b>                | <b>\$ 19,086</b>                |

## Alcohol and Gaming Commission of Ontario

### Notes to the Financial Statements For the Year Ended March 31, 2022 (\$'000)

#### 6. Employee future benefits

##### a. Pension costs

Certain employees of the AGCO participate in the Public Service Pension Plan (PSPP) and the Ontario Public Service Employees Union Pension Plan (OPSEUPP), which are defined benefit pension plans for employees of the Province and many provincial agencies. The Province of Ontario is the sole sponsor of the PSPP and a joint sponsor of the OPSEUPP with the Ontario Public Service Employees Union (OPSEU). The sponsors of these plans determine the AGCO's annual payments to the respective plans. The AGCO's responsibilities with regard to the PSPP and the OPSEUPP are limited to its contributions. Payments made to the plans are recognized as an expenditure when employees have rendered the service entitling them to the contributions. The AGCO's required annual contribution of \$5,012 (2021 – \$4,612), is included in Employee Benefits in the Statement of Operations and Accumulated Deficit.

##### b. Other employee future benefits

The obligations of separation, long-term income protection (LTIP) pension contributions, and time banking entitlements earned by eligible employees are included in Other Employee Future Benefits in the Statement of Financial Position.

|                            | <b>2022</b>     |           | <b>2021</b>  |
|----------------------------|-----------------|-----------|--------------|
| Separation entitlements    | \$ 4,778        | \$        | 5,427        |
| LTIP pension contributions | 1,633           |           | 1,402        |
| Time bank entitlements     | 834             |           | 1,316        |
|                            | <b>\$ 7,245</b> | <b>\$</b> | <b>8,145</b> |

##### (a) Separation entitlements

Employees hired prior to April 1, 2015 and who have completed at least five (5) years of continuous service as a permanent full-time employee with the AGCO as of April 1, 2015, will be eligible for a separation payment equivalent to one week's base pay for each year of active service up to a maximum of sixteen (16) weeks upon retirement, resignation, or death.

Employees hired prior to April 1, 2015 and who had not completed five (5) years of continuous service as a permanent full-time employee as of April 1, 2015, will only be eligible for a separation payment in the event of retirement, resignation, or death if they have completed at least ten (10) years of continuous service as a permanent full-time employee as of the date of their retirement, resignation, or death. An employee who meets these requirements will be entitled to separation payment equivalent to one week's base pay for each year of active service up to a maximum of sixteen (16) weeks upon retirement, resignation, or death.

## Alcohol and Gaming Commission of Ontario

### Notes to the Financial Statements For the Year Ended March 31, 2022 (\$'000)

#### 6. Employee future benefits (continued)

The separation entitlements were calculated using a discount rate of 3.19% (2021 - 2.37%) and expected average remaining service life of 13 years (2021 - 13 years). The cost of living adjustment used in the calculation was 1% (2021 - 1%) according to the latest collective agreement between the AGCO and the OPSEU Local 565.

For the year ended March 31, 2022, these costs amounted to \$469 (2021 - \$572) and included in employee benefits in the Statement of Operations and Accumulated Deficit.

##### (b) LTIP pension contributions

As required by the PSPP and the OPSEUUPP, the AGCO makes the regular employer contributions and the members' contributions to the pension plans for periods when members are eligible for or receive LTIP benefits.

The cost of living adjustment of pension contributions was determined by the pension boards, 2.4% starting January 2022 (2021 - 1%). Each LTIP arrangement was evaluated individually, based on term and the corresponding discount rate using weighted average rate from Ontario bond yield curve rates.

For the year ended March 31, 2022, these costs amounted to \$506 [2021 - \$(10)] and included in employee benefits in the Statement of Operations and Accumulated Deficit.

##### (c) Time bank entitlements

Eligible AGCO employees can bank up to 10 vacation days at the end of each calendar year into the "Time Bank", with a cap of 125 days in total. These time bank days can only be used when employees leave the organization as time off or a lump sum pay.

The time bank entitlements were calculated using a discount rate of 3.10% (2021 - 2.12%) and expected average remaining service life of 10 years (2021 - 9 years). The cost of living adjustment used in the calculation was 1% (2021 - 1%) according to the latest collective agreement between the AGCO and the OPSEU Local 565.

#### c. Non-pension post-employment benefits

The costs of non-pension benefits for eligible pensioners are paid by the Province of Ontario and are not included in these financial statements.

## Alcohol and Gaming Commission of Ontario

### Notes to the Financial Statements For the Year Ended March 31, 2022 (\$'000)

#### 7. Security and customer deposits

|                             | <b>2022</b>     | <b>2021</b>     |
|-----------------------------|-----------------|-----------------|
| Order of monetary penalties | \$ 1,124        | \$ 1,022        |
| Gaming deposits             | 6,582           | 3,323           |
| Other deposits              | 14              | 35              |
|                             | <b>\$ 7,720</b> | <b>\$ 4,380</b> |

These deposits are established under the AGCO Act, which allows the AGCO to establish fees and other charges in administering the acts in [Note 1](#). The nature of these deposits are as follows:

- Order of monetary penalties (OMP): Under Section 12 (2) of the AGCO Act, monetary penalties serve as an administrative action to promote regulatory compliance for all entities the AGCO regulates in the alcohol, gaming, horse racing and cannabis retail sectors and can be only used for education, training, and awareness purposes.
- Gaming investigation deposits: Under Section 9 of the *Gaming Control Act*, all applicants/registrants are required to pay the reasonable costs of an inquiry or investigation related to gaming registrations under the Act.

#### 8. Accounts receivable

Accounts receivable relate to fees, licences and registrations revenue for outstanding payments from horse racing operators, and OMP due to appeal periods.

|                                 | <b>2022</b>   | <b>2021</b>   |
|---------------------------------|---------------|---------------|
| Accounts receivable             | \$ 444        | \$ 1,029      |
| Allowance for doubtful accounts | (22)          | (200)         |
|                                 | <b>\$ 422</b> | <b>\$ 829</b> |

#### 9. Due from the Province

Due from the Province represents the difference between cash receipts submitted to the Province by the AGCO and the AGCO's expenses paid. Should the AGCO incur a deficit in any fiscal year, the deficit is covered by the Province and is reflected in Contribution by the Province in the Statement of Operations and Accumulated Deficit.

Cash received by the AGCO is deposited directly into the Consolidated Revenue Fund (CRF). The AGCO's invoices are paid by the Province's CRF on behalf of the AGCO and booked against the AGCO's budget. Goods and Services provided by other ministries in [Note 12](#) are treated as inter-ministry chargebacks and included in Due from the Province.

## Alcohol and Gaming Commission of Ontario

### Notes to the Financial Statements For the Year Ended March 31, 2022 (\$'000)

#### 10. Tangible capital assets

|   | Business<br>application<br>software | Information<br>technology<br>hardware | Construction<br>in progress | 2022             |
|---|-------------------------------------|---------------------------------------|-----------------------------|------------------|
| <b>Cost</b>                               |                                     |                                       |                             |                  |
| Opening balance                           | \$ 15,850                           | \$ 3,545                              | \$ —                        | \$ 19,395        |
| Additions                                 | —                                   | 467                                   | 2,010                       | 2,477            |
| Transfer out                              | —                                   | (227)                                 | —                           | (227)            |
| Transfer from construction<br>in progress | 1,829                               | —                                     | (1,829)                     | —                |
| <b>Closing balance</b>                    | <b>17,679</b>                       | <b>3,785</b>                          | <b>181</b>                  | <b>21,645</b>    |
| <b>Accumulated amortization</b>           |                                     |                                       |                             |                  |
| Opening balance                           | 3,632                               | 2,255                                 | —                           | 5,887            |
| Additions                                 | 1,295                               | 476                                   | —                           | 1,771            |
| Transfer out                              | —                                   | (227)                                 | —                           | (227)            |
| <b>Closing balance</b>                    | <b>4,927</b>                        | <b>2,504</b>                          | <b>—</b>                    | <b>7,431</b>     |
| <b>Net book value</b>                     | <b>\$ 12,752</b>                    | <b>\$ 1,281</b>                       | <b>\$ 181</b>               | <b>\$ 14,214</b> |
|   | Business<br>application<br>software | Information<br>technology<br>hardware | Construction<br>in progress | 2021             |
| <b>Cost</b>                               |                                     |                                       |                             |                  |
| Opening balance                           | \$ 15,422                           | \$ 2,764                              | \$ 88                       | \$ 18,274        |
| Additions                                 | —                                   | 781                                   | 340                         | 1,121            |
| Transfer out                              | —                                   | —                                     | —                           | —                |
| Transfer from construction<br>in progress | 428                                 | —                                     | (428)                       | —                |
| <b>Closing balance</b>                    | <b>15,850</b>                       | <b>3,545</b>                          | <b>—</b>                    | <b>19,395</b>    |
| <b>Accumulated amortization</b>           |                                     |                                       |                             |                  |
| Opening balance                           | 2,382                               | 1,874                                 | —                           | 4,256            |
| Additions                                 | 1,250                               | 381                                   | —                           | 1,631            |
| Transfer out                              | —                                   | —                                     | —                           | —                |
| <b>Closing balance</b>                    | <b>3,632</b>                        | <b>2,255</b>                          | <b>—</b>                    | <b>5,887</b>     |
| <b>Net book value</b>                     | <b>\$ 12,218</b>                    | <b>\$ 1,290</b>                       | <b>\$ —</b>                 | <b>\$ 13,508</b> |

## Alcohol and Gaming Commission of Ontario

### Notes to the Financial Statements For the Year Ended March 31, 2022 (\$'000)

#### 11. Revenue

|                                  | <b>Cannabis<br/>Retail</b> | <b>Gaming Horse Racing</b> | <b>Liquor</b>   | <b>Other</b> | <b>2022</b>      |
|----------------------------------|----------------------------|----------------------------|-----------------|--------------|------------------|
| Fees, Licences and Registrations | \$ 7,859                   | \$ 6,169                   | \$ 7,473        | \$ —         | \$ 29,172        |
| Recoveries - Gaming Sector       | —                          | 19,735                     | —               | —            | 19,735           |
| Recoveries - iGaming Ontario     | —                          | 7,264                      | —               | —            | 7,264            |
| Other Revenue                    | —                          | —                          | —               | 82           | 82               |
|                                  | <b>\$ 7,859</b>            | <b>\$ 33,168</b>           | <b>\$ 7,473</b> | <b>\$ 82</b> | <b>\$ 56,253</b> |

|                                  | <b>Cannabis<br/>Retail</b> | <b>Gaming Horse Racing</b> | <b>Liquor</b>   | <b>Other</b>  | <b>2021</b>      |
|----------------------------------|----------------------------|----------------------------|-----------------|---------------|------------------|
| Fees, Licences and Registrations | \$ 3,646                   | \$ 5,823                   | \$ 6,633        | \$ —          | \$ 22,649        |
| Recoveries - Gaming Sector       | —                          | 13,446                     | —               | —             | 13,446           |
| Recoveries - iGaming Ontario     | —                          | —                          | —               | —             | —                |
| Other Revenue                    | —                          | —                          | —               | 192           | 192              |
|                                  | <b>\$ 3,646</b>            | <b>\$ 19,269</b>           | <b>\$ 6,633</b> | <b>\$ 192</b> | <b>\$ 36,287</b> |

## Alcohol and Gaming Commission of Ontario

### Notes to the Financial Statements For the Year Ended March 31, 2022 (\$'000)

#### 12. Related party transactions

The Province of Ontario is a related party as it is the controlling entity of the AGCO. Organizations that are commonly controlled by the Province of Ontario are also related parties of the AGCO. Transactions with related parties are outlined below, except for transactions with the AGCO's subsidiary, iGaming Ontario, which are outlined in [Note 16](#).

All related party transactions were measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties.

##### a. Ministries of the Province of Ontario

During the course of the year, the AGCO entered into the following transactions with various Ministries of the Province of Ontario:

- (i) The AGCO has statutory authority to carry out specific types of investigations, inspections and other similar activities in accordance with the Acts and regulations that it administers. The AGCO covers the costs for dedicated Ontario Provincial Police (OPP) officers within its Investigation and Enforcement Bureau to perform these activities. A Memorandum of Understanding between the AGCO and OPP establishes that the AGCO is responsible for funding the salaries, wages, expenses and administrative support costs for these OPP officers. For the year ended March 31, 2022, the AGCO was charged \$15,126 (2021 - \$14,488) by the Ministry of the Solicitor General for these costs and is included in Salaries and Wages, Employee Benefits and Services in the Statement of Operations and Accumulated Deficit.
- (ii) The Ministry of Public and Business Service Delivery (MPBSD, formerly known as the Ministry of Government and Consumer Services) provides the AGCO with network, telecommunication and administrative services. For the year ended March 31, 2022, the AGCO was charged \$1,382 (2021 - \$1,464) by MPBSD for these costs and are included in Transportation and Communication, Services in the Statement of Operations and Accumulated Deficit. MPBSD also provides the AGCO with other services such as accounting, tax remittance and cash management without charge.
- (iii) The Ministry of Transportation supplies the AGCO with leased vehicles that are used by employees to perform their duties. For the year ended March 31, 2022, the AGCO was charged \$667 (2021 - \$661) for this cost and is included in Services in the Statement of Operations and Accumulated Deficit.
- (iv) For the year ended March 31, 2022, MAG charged the AGCO \$351 (2021 - \$481) for legal services, horse racing regulatory costs, Workplace Safety Insurance Board charges and other administrative services and is included in Salaries and Wages, Employee Benefits and Services in the Statement of Operations and Accumulated Deficit.

## Alcohol and Gaming Commission of Ontario

### Notes to the Financial Statements For the Year Ended March 31, 2022 (\$'000)

#### 12. Related party transactions (continued)

(v) MAG provides the AGCO with leased office space at 6 (2021 – 6) locations across the province. The costs of the leases are paid by MAG out of their voted appropriation. For the year ended March 31, 2022, the costs of rental were \$4,354 (2021 - \$4,272).

##### b. Ontario Racing Management Inc. (ORM)

For the year ended March 31, 2022, the AGCO paid ORM \$114 (2021 - \$120) for the rental of one office location. The space use licence agreement commenced on August 1, 2016 and shall expire on July 31, 2026, unless sooner terminated in accordance with this agreement. The AGCO acknowledges that ORM is subject to the terms of the Prime Lease with Pearson Corporate Centre GP Inc.

##### c. Ontario Lottery and Gaming Corporation (OLG)

The AGCO recovers costs from OLG related to the regulation of OLG's lotteries, internet gaming (iGaming), charitable gaming (cGaming) and OLG land-based casino(s). For the year ended March 31, 2022, the AGCO received \$17,635 (2021 - \$11,286) of which \$12,447 (2021 - \$12,590) was recognized to offset regulatory costs incurred during the year. The remaining amounts are recorded as deposits included in Security and Customer Deposits in the Statement of Financial Position until future costs are incurred.

#### 13. AGCO Board of Directors' remuneration

The AGCO's Board of Directors are part time appointees. Total remuneration paid to the Board of Directors during the year was \$136 (2021 - \$105).

#### 14. Financial instruments risks

##### a. Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of financial instruments will fluctuate due to changes in market interest rates. The AGCO is subject to interest rate risk on its other employee future benefits liability. The discount rates used in future cash flows for other employee future benefits are based on Ontario bond yield curve depending on employee expected average remaining service life or the term of the future cash flows.

## Alcohol and Gaming Commission of Ontario

### Notes to the Financial Statements For the Year Ended March 31, 2022 (\$'000)

#### 14. Financial instruments (continued)

##### b. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The AGCO's exposure to credit risk is minimal as the majority of the receivables are from the Province of Ontario and iGaming Ontario (a related party under common control by the Province of Ontario).

##### c. Currency risk

The AGCO's exposure to currency risk is minimal as few transactions are in currencies other than Canadian dollars.

##### d. Liquidity risk

The AGCO's exposure to liquidity risk is minimal as the AGCO may recover its costs through revenue and recoveries from entities that form part of the regulated sectors. As well any deficiency of revenue over expenses is absorbed by the Province and is reflected in the Due from the Province on the Statement of Financial Position.

#### 15. COVID-19 impacts

The COVID-19 pandemic continued to negatively impact the industries and sectors the AGCO regulates in the 2020-2021 and 2021-2022 fiscal year.

Through a series of announcements between March 18, 2020, and January 14, 2021, the AGCO extended the terms of licences, authorizations and registrations.

Beginning March 18, 2020, the combined term extensions granted were as follows:

- a. Active liquor and gaming licences, authorizations and registrations – 15 months;
- b. Active cannabis licences, authorizations and registrations – 9 months;
- c. Active horseperson licences – 12 months; and
- d. Horseperson licences expiring within six months of March 18, 2020 – 12 months.

For the 2021-2022 fiscal year, the AGCO waived licensing and regulatory fees for racetrack operators who were required to cancel their scheduled races as a result of the shutdown orders under the *Reopening Ontario (A Flexible Response to COVID-19) Act* and the *Emergency Management and Civil Protection Act*.

The AGCO waived collecting regulatory cost recoveries from land based casinos and OLG Charitable Gaming sites for the period of April 1 to September 30, 2021, and the month of January 2022.

These cost relief measures resulted in a significant decrease in revenue for the years ended March 31, 2022 and March 31, 2021.

## Alcohol and Gaming Commission of Ontario

### Notes to the Financial Statements For the Year Ended March 31, 2022 (\$'000)

#### 16. iGaming Ontario

iGaming Ontario was created on July 6, 2021 by *Ontario Regulation 517/21* under the *Alcohol, Cannabis and Gaming Regulation and Public Protection Act, 1996* and continued by *Ontario Regulation 722/21* under the *Alcohol and Gaming Commission of Ontario Act, 2019*. iGaming Ontario is responsible to conduct and manage internet gaming offered through private gaming operators.

In addition to its regulatory responsibilities, the AGCO recommends appointments to the board of iGaming Ontario to the Attorney General. The Attorney General is responsible for appointing board members to iGaming Ontario based on these recommendations. The Minister of Finance determines the timing of any cash remittances from iGaming Ontario to the Province of Ontario. As a result, the financial results of iGaming Ontario are not consolidated into these financial statements as iGaming Ontario is controlled by the Province of Ontario and is consolidated into the Province's financial statements.

Effective September 6, 2021, the AGCO and iGaming Ontario entered into a Shared Resource Agreement (SRA). Through the SRA, the AGCO provides iGaming Ontario with human resources, payroll, procurement and information technology services on a cost recovery basis. For the year ended March 31, 2022, the AGCO directly paid expenditures (including salaries and benefits of iGaming Ontario employees and vendor invoices) totaling \$7,264 (2021 - \$nil) on behalf of iGaming Ontario. These expenditures are included in Expenditures in the Statement of Operations and Accumulated Surplus. The associated recovery of these costs is reflected in Recoveries – iGaming Ontario in the Statement of Operations and Accumulated Surplus. As at March 31, 2022, the entire balance of \$7,264 (2021 - \$nil) is outstanding and is included in Due from iGaming Ontario in the Statement of Financial Position.

Prior to the incorporation of iGaming Ontario on July 6, 2021, the AGCO incurred \$954 (2021 - \$902) in costs relating to the development of a framework for a market for internet gaming offered through private gaming operators. These costs will not be recovered from iGaming Ontario.