

Financial Statements of

ONTARIO SECURITIES COMMISSION

For the Year Ended March 31, 2003

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Auditor's Report

To the Ontario Securities Commission

I have audited the balance sheet of the Ontario Securities Commission as at March 31, 2003 and the statements of operations and operating surplus and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

“Erik Peters”

Toronto, Ontario
May 7, 2003

Erik Peters, FCA
Provincial Auditor

ONTARIO SECURITIES COMMISSION**Balance Sheet**

As at March 31, 2003

	2003	2002
ASSETS		
CURRENT		
Cash	\$ 22,704,342	\$ 14,854,685
Accounts receivable	2,139,605	1,004,234
Prepaid expenses	401,421	422,252
	25,245,368	16,281,171
DESIGNATED SETTLEMENTS (Note 8)	474	130,879
RESERVE FUND ASSETS (Note 3)	32,000,000	32,000,000
CAPITAL ASSETS (Note 5)	7,039,570	7,876,910
	\$ 64,285,412	\$ 56,288,960
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 9,854,764	\$ 8,255,930
Due to Province of Ontario (Note 10(a))	14,480,975	5,897,948
	24,335,739	14,153,878
NON-CURRENT		
Other long term liabilities (Note 7(b))	813,131	530,795
	25,148,870	14,684,673
DESIGNATED SETTLEMENTS (Note 8)	474	130,879
SURPLUS		
OPERATING		
General	7,037,824	9,375,164
Reserve (Note 3)	32,000,000	32,000,000
	39,037,824	41,375,164
CONTRIBUTED		
	98,244	98,244
	39,136,068	41,473,408
	\$ 64,285,412	\$ 56,288,960

Investor Education Fund (Note 9)

Commitments and Contingencies (Note 4)

See accompanying notes to Financial Statements.

ON BEHALF OF THE COMMISSION

"David A. Brown"

David A. Brown, Q.C.

Chair

"Robert W. Davis"

Robert W. Davis, FCA
Commissioner

ONTARIO SECURITIES COMMISSION
Statement of Operations and Operating Surplus
For the year ended March 31, 2003

	2003	2002
REVENUE		
Fees		
Prospectus filings	\$ 35,853,829	\$ 43,539,952
Registration	26,724,635	27,617,369
Disclosure filings	5,105,622	6,099,801
Applications for exemptive relief	1,311,277	971,482
Investment income	1,375,337	1,551,722
Miscellaneous	102,208	113,976
	<u>70,472,908</u>	<u>79,894,302</u>
EXPENSES		
Salaries and benefits (Note 7)	38,278,354	34,032,191
Administrative	6,617,364	4,873,075
Occupancy (Note 6)	3,726,817	3,185,354
Professional services (Note 2(b))	3,122,824	3,345,009
Amortization	3,069,103	3,277,968
Other	1,059,811	1,035,442
	<u>55,874,273</u>	<u>49,749,039</u>
EXCESS OF REVENUE OVER EXPENSES	14,598,635	30,145,263
OPERATING SURPLUS, BEGINNING OF PERIOD	41,375,164	31,260,166
LESS: Distributions to Province of Ontario (Note 10(a))	16,935,975	20,030,265
OPERATING SURPLUS, END OF PERIOD	<u>\$ 39,037,824</u>	<u>\$ 41,375,164</u>
Represented by:		
General	\$ 7,037,824	\$ 9,375,164
Reserve	32,000,000	32,000,000
	<u>\$ 39,037,824</u>	<u>\$ 41,375,164</u>

See accompanying notes to Financial Statements.

ONTARIO SECURITIES COMMISSION**Statement of Cash Flows**

For the year ended March 31, 2003

	2003	2002
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Excess of revenue over expenses	\$ 14,598,635	\$ 30,145,263
Adjustments for amortization	3,069,103	3,277,968
	<u>17,667,738</u>	<u>33,423,231</u>
Changes in non-cash working capital:		
Accounts receivable		523,864
	(1,135,371)	
Prepaid expenses	20,831	(128,471)
Due to Province of Ontario	8,583,027	(908,328)
Accounts payable and accrued liabilities	1,598,834	(2,537,204)
Other long term liabilities	282,336	294,541
	<u>9,349,657</u>	<u>(2,755,598)</u>
	<u>27,017,395</u>	<u>30,667,633</u>
Cash flows from financing activities		
Distributions to Province of Ontario	(16,935,975)	(20,030,265)
Obligation under capital leases	-	(28,629)
	<u>(16,935,975)</u>	<u>(20,058,894)</u>
Cash flows from investing activities		
Reserve fund assets	-	(12,000,000)
Purchase of capital assets	(2,231,763)	(1,394,027)
	<u>(2,231,763)</u>	<u>(13,394,027)</u>
NET INCREASE (DECREASE) IN CASH POSITION	7,849,657	(2,785,288)
CASH POSITION, BEGINNING OF PERIOD	14,854,685	17,639,973
CASH POSITION, END OF PERIOD	<u>\$ 22,704,342</u>	<u>\$ 14,854,685</u>

See accompanying notes to Financial Statements.

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2003

1. NATURE OF THE CORPORATION

Effective November 1, 1997, amendments to the *Securities Act* continued the Ontario Securities Commission (the Commission) as a corporation without share capital. The Commission functions as an independent regulatory agency and administrative tribunal responsible for overseeing the securities industry in Ontario. As a Crown corporation, the Commission is exempt from income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

a) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, beginning in the fiscal year following acquisition. The estimated useful lives of the assets are as follows:

Office furniture and equipment	5 to 10 years
Computer hardware and related applications	2 years
Computer equipment under capital leases	2 years
Leasehold improvements	over term of lease

b) Revenue

Fees are recognized when earned which is normally upon receipt. The amount of revenue to be realized from prospectus filing fees is uncertain. Fees are paid based on estimated prospectus proceeds and refunds are issued, as required, based on actual proceeds in Ontario. As a result, revenue from prospectus filings is recognized net of a provision for expected refunds. At the beginning of each fiscal year the Commission establishes a percentage for the provision for expected refunds based on the experience of the previous three years. The provision is adjusted at year end. Disclosure filing fees are recognized upon receipt of filing.

Recovery of costs of investigations is netted against professional services upon date of decision unless management determines there is no reasonable assurance as to ultimate collection, in which case recovery is recognized when cash is received.

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2003

c) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

d) Employee Benefit Plan

The Commission provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multiemployer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the Commission has insufficient information to apply defined benefit plan accounting to this pension plan.

The Commission also maintains supplementary unfunded pension plans for certain full-time members. The Commission accrues its obligations and the related costs under these supplemental unfunded pension plans. The transitional obligation is being amortized over the average remaining service period of active members expected to receive benefits under these plans. For purposes of valuation, the actuarial liability and the current service cost is determined by independent actuaries using the projected benefit method prorated on services and management's best estimate assumptions.

Post-retirement non-pension benefits are not included in the Statement of Operations and Operating Surplus as described in Note 10(c).

3. RESERVE

As part of the approval of its self-funded status, the Commission was allowed to establish a \$20.0 million reserve to be used as an operating contingency against revenue shortfalls or unanticipated expenditures. The accumulated funds, at March 31, 2003, have been invested in short-term and mid-term instruments with the Ontario Financing Authority.

The Commission received approval from the Ministry of Finance to retain \$12.0 million, which may only be used toward implementation costs of the proposed merger with the Financial Services Commission of Ontario as described in Note 12, and are subject to appropriate terms and conditions agreed with the Ministry of Finance, including:

- i) The monies will be paid to the Consolidated Revenue Fund, in part or in full, if not required to fund the costs of the merger; and
- ii) While retained by the Commission, the monies will be invested with the Ontario Financing Authority.

Investments are carried at cost, which approximates market value. The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet cash flow needs. Interest earned on investments are credited to the operations of the Commission.

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2003

4. COMMITMENTS AND CONTINGENCIES

- a) The Commission has guaranteed 61% of a total \$12.0 million line of credit from a Canadian bank for the Mutual Fund Dealers Association of Canada (MFDA). The guarantee was signed March 19, 1999 and can be terminated by the Commission at any time. The Alberta Securities Commission and the British Columbia Securities Commission have also guaranteed a specified percentage of the total indebtedness. The MFDA has signed an agreement which requires it to use the funds only in accordance with the budget and business plan as approved by each of the Commissions, and also commits the MFDA to repay its loan by the end of the seventh year. As at March 31, 2003, the MFDA has drawn \$2,963,000 (2002 - \$8,913,000) on this line of credit. Interest is charged at prime plus 0.50% per annum.
- b) The Commission is involved in various legal actions arising out of the ordinary course and conduct of business. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time.
- c) The National Registration Database (NRD) was launched on March 31, 2003. The Commission, together with the Alberta Securities Commission, the British Columbia Securities Commission, and the Investment Dealers Association is contingently liable for a \$4.25 million assured payment in respect of the development of NRD. The Commission's share of this contingency is \$1,962,650. It is expected that the assured payment will be funded by users of NRD and no provision has been made in the financial statements for any potential cost to the Commission.

5. CAPITAL ASSETS

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>2003 Net Book Value</u>	<u>2002 Net Book Value</u>
Office furniture	\$2,813,494	\$ 1,309,818	\$ 1,503,676	\$ 1,702,388
Office equipment	278,858	127,832	151,026	203,070
Computer hardware and related applications	8,378,742	6,140,304	2,238,438	2,351,840
Computer equipment under capital leases	831,725	831,725	-	-
Leasehold improvements	5,782,313	2,635,883	3,146,430	3,619,612
	<u>\$ 18,085,132</u>	<u>\$ 11,045,562</u>	<u>\$ 7,039,570</u>	<u>\$ 7,876,910</u>

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2003

6. LEASE OBLIGATIONS

Operating

The Commission is committed to operating lease payments for the next 5 years as follows:

2004	\$3,748,914
2005	\$3,644,601
2006	\$1,573,737
2007	\$ 82,504
2008	\$ 51,205

7. PENSION PLANS

- a) The Commission's contribution to the Public Service Pension Plan for the year ended March 31, 2003 was \$1,346,895 (2002 - \$900,885) and is included in salaries and benefits.
- b) The unfunded supplemental pension plans had an accrued benefit obligation of \$544,565 at March 31, 2003 (2002 - \$606,181). The Commission's related expense for the year was \$282,336 (2002 - \$294,541) and is included in salaries and benefits. No benefits were paid during the year (2002 - \$0). The average remaining service period of the active employees covered by these plans ranges from .92 to 3.85 years (2001 - 1.92 to 4.85 years). The significant actuarial assumptions adopted at March 31, 2003 include a discount rate of 6.5% (2002 - 6.75%) and a rate of compensation increase of 0.0% (2002 - 0.0%).

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2003

8. DESIGNATED SETTLEMENTS

The Commission has reached a number of settlement agreements arising from enforcement proceedings where monies from these settlements are received or receivable by the Commission to be set aside and allocated to such third parties as the Commission may determine. The accumulated funds are held in a segregated bank account. As at March 31, 2003, the accumulated balance is determined as follows:

	2003	2002
Opening balance	\$ 130,879	\$1,544,975
Settlements	150,000	4,021,991
Interest	3,474	40,888
Payments		
Investor Education Fund – prior period	(130,879)	(1,544,975)
Investor Education Fund – current period	(153,000)	(3,932,000)
Investor Education Fund – Total	(283,879)	(5,476,975)
Closing Balance	\$474	\$130,879
Represented by:		
Cash	\$101	\$498
Receivables	373	130,381
	\$474	\$130,879

The balance of \$474 (2002 - \$130,879) is due to the Investor Education Fund.

9. INVESTOR EDUCATION FUND

- a) The Investor Education Fund (the Fund) was incorporated by letters patent of Ontario dated August 3, 2000 as a non-profit corporation without share capital. The Fund is independently managed by its Board of Directors to increase knowledge and awareness among investors and potential investors and to support research and develop programs and partnerships which promote investor education. The Commission oversees the Fund as the sole voting member. The Fund is exempt from income taxes.

The Fund has not been consolidated in the Commission's financial statements because the Commission will neither obtain future economic benefits from the Fund, nor incur related risks. Financial statements of the Fund are available on request. Financial summaries of this unconsolidated entity as at March 31, 2003 and for the year ended March 31, 2003 are as follows:

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2003

INVESTOR EDUCATION FUND

	2003	2002
Financial Position		
Total assets	\$7,434,633	\$8,365,439
Total liabilities	\$166,285	\$192,120
Total net assets	7,268,348	8,173,319
	<u>\$7,434,633</u>	<u>\$8,365,439</u>
Results of Operations		
Total contributions and interest income	\$369,047	\$4,188,023
Total expenses	1,274,018	471,423
Excess of revenue over expenses	(\$904,971)	\$3,716,600
Cash flows		
Cash flows from operating activities		
Cash receipts from the Ontario Securities Commission	\$283,878	\$5,476,975
Cash receipts from third parties	8,000	-
Investment income received	196,439	118,371
Cash paid for initiatives and expenses	(1,299,852)	(368,341)
Net increase in cash position	(811,535)	5,227,005
Cash position, beginning of period	8,227,005	3,000,000
Cash position, end of period	<u>\$7,415,470</u>	<u>\$8,227,005</u>

b) In the normal course of operations, the Commission entered into transactions with the Fund as follows:

i) The Board of the Commission authorized a transfer of \$153,474 (2002 - \$4,062,879) of the Commission's Designated Settlements to the Fund. As at March 31, 2003, \$474 (2002 - \$130,879) remained to be paid.

ii) The Commission has a Management Services agreement with the Fund for the provision of administrative and management services, at cost.

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2003

For the period ended March 31, 2003, the Commission incurred costs totalling \$310,923 (2002 - \$181,776) for services related to the Fund. The total cost of these services has been charged back to the Fund and, of this amount, \$116,288 is owing to the Commission as of March 31, 2003 (2002 - \$141,257).

10. TRANSACTIONS WITH PROVINCE OF ONTARIO

In the course of normal operations, the Commission entered into transactions with the Province of Ontario as follows:

- a) The *Securities Act* states that when ordered to do so by the Minister of Finance, the Commission shall remit to the Province of Ontario such surplus funds as determined by the Minister. In accordance with this provision, the Minister has requested the Commission to remit fee revenues which are in excess of its operating requirements. The Commission includes fixed asset funding in its operating requirements.
- b) The Commission has a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule 1 Bank.
- c) Costs of post-retirement non-pension employee benefits have been paid by the Management Board Secretariat and are not included in the Statement of Operations and Operating Surplus.

11. STREAMLINING OF FEES UNDER THE SECURITIES ACT

Commencing on March 31, 2003, the Commission introduced a new fee model under the provisions of the Securities Act. The new fee regime is designed to accomplish three primary objectives; to reduce the overall fees charged to market participants from what existed previously in Ontario; to create a clear and streamlined fee structure; and adopt fees that accurately reflect the Commission's costs of operations.

The fee regime is based on the concept of "participation fees" and "activity fees". Participation fees represent the benefit derived by market participants from participating in Ontario's capital markets. Activity fees represent the direct cost of Commission staff resources expended in undertaking certain activities requested of staff by market participants.

ONTARIO SECURITIES COMMISSION

Notes to the Financial Statements

March 31, 2003

12. ESTABLISHING A SINGLE FINANCIAL SERVICES REGULATOR

In the May 2, 2000 Budget, the Minister of Finance announced that the Ontario Securities Commission and the Financial Services Commission of Ontario would be merged into a single agency that would provide regulation of the capital markets and financial services sectors.

Legislation is required in order to create the proposed new organization and specify its regulatory responsibilities and powers. Draft legislation supporting this initiative was released for comment by the Ministry of Finance in April 2001.