

BCSC

British Columbia Securities Commission

**Financial Statements
For the Year Ended March 31, 2007
(audited)**



Report of the Auditor General of British Columbia

To the Commissioners of the British Columbia Securities Commission, and

To the Attorney General, Province of British Columbia:

I have audited the balance sheet of the *British Columbia Securities Commission* as at March 31, 2007 and the statements of operations, of surpluses, and of 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 *British Columbia Securities Commission* as at March 31, 2007 and the results of its operations, its surpluses, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia
April 20, 2007*

Errol Price, CA
Deputy Auditor General

Statement of Management Responsibility

Management of the British Columbia Securities Commission is responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate.

Management, consisting of the Executive Director and her senior staff, has prepared the financial statements according to accounting principles that are generally accepted in Canada. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. It is possible that circumstances will cause actual results to differ. Management does not believe it is likely that any differences will be material.

Financial information contained throughout this annual report, including the management discussion and analysis and the charts and figures in the body of the annual report, is consistent with these financial statements.

Management develops and maintains systems of control that give the Commission reasonable assurance that management has:

- operated within its authorized limits,
- safeguarded assets, and
- kept complete and accurate financial records.

The commissioners are responsible for establishing prudent rules of business and staff conduct. It is the Commission's policy to maintain the highest standards of ethics in all its activities. The Commission has created an employee conduct policy, including conflict of interest rules for employees and commissioners, to achieve those standards.

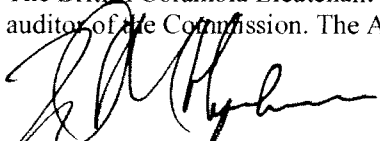
The commissioners are also responsible for ensuring that management fulfills its financial reporting and control responsibilities, and have appointed an independent audit committee to oversee the financial reporting process. The committee members are independent commissioners who do not participate in the day-to-day operations of the Commission. The audit committee meets regularly throughout the year with management, the internal auditors and the external auditors to review the:

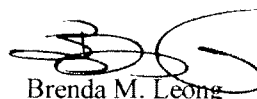
- financial statements,
- adequacy of financial reporting, accounting systems and controls, and
- internal and external audit functions.

The internal auditors are charged with the responsibility of reviewing and evaluating the adequacy of and compliance with the Commission's internal control standards. The internal auditors report the results of their reviews and make recommendations both to management and the audit committee. The external auditor's responsibility is to express an opinion on whether the financial statements, in all material respects, fairly present the commission's financial position, results of operations and cash flows in accordance with accounting principles that are generally accepted in Canada. The internal and external auditors have full and open access to the audit committee, with and without the presence of management.

The audit committee has reviewed these financial statements and has recommended the commissioners approve them.

The British Columbia Lieutenant Governor in Council has appointed the Auditor General to be the independent auditor of the Commission. The Auditor General has examined the financial statements and his report follows.


Douglas M. Hyndman
Chair and Chief Executive Officer


Brenda M. Leong
Executive Director

British Columbia Securities Commission
Balance Sheet
At March 31, 2007
(audited)

	2007	2006
ASSETS		
Current assets:		
Cash and short term investments (note 4)	\$ 9,791,726	\$ 6,695,621
Accounts and advances receivable (note 5)	338,326	220,855
Prepaid expenses and deposits (note 6)	410,397	508,227
	10,540,449	7,424,703
Investments held for designated purposes (note 4)	16,341,429	14,426,635
Capital assets (note 7)	3,101,509	3,942,872
	\$ 29,983,387	\$ 25,794,210
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 680,966	\$ 494,954
Accrued salaries	2,260,551	2,524,500
Deferred revenue	6,086,021	5,725,755
Employee leave liability (note 8)	677,741	750,792
	9,705,279	9,496,001
Deferred rent	110,335	132,605
SURPLUSES		
General	3,826,344	1,738,969
Fee stabilization reserve (note 9)	13,000,000	12,000,000
Education reserve (note 9)	3,341,429	2,426,635
	20,167,773	16,165,604
	\$ 29,983,387	\$ 25,794,210

Note 13 describes our commitments and contingent liabilities.

The accompanying notes are part of the financial statements.

Approved by the Commission:



DOUGLAS M. HYNDMAN
Chair



JOHN K. GRAF
Member

British Columbia Securities Commission
Statement of Operations
For the Year Ended March 31, 2007
(audited)

	<u>2007</u>	<u>2006</u>
REVENUES		
Fees		
Prospectus and other distributions	\$ 16,322,593	\$ 14,726,105
Registration	8,691,771	8,336,935
Financial filings	5,032,260	4,609,170
Exemptive orders and other	512,467	495,174
Administrative penalties and designated settlements (note 10)	1,432,335	710,811
Enforcement cost recoveries (note 10)	300,208	69,100
Investment income	907,116	507,961
	<u>33,198,750</u>	<u>29,455,256</u>
EXPENSES		
Salaries and benefits (note 12)	21,281,068	20,237,195
Professional services	2,002,771	1,703,402
Occupancy	1,784,962	1,728,452
Depreciation	1,074,890	1,180,399
Information management	822,608	820,219
Education reserve(note 9)	644,671	1,197,693
External communications	384,692	232,565
Administration	373,443	617,381
Staff training	356,813	378,596
Business travel	325,072	368,214
Telecommunications	145,591	146,179
	<u>29,196,581</u>	<u>28,610,295</u>
EXCESS OF REVENUES OVER EXPENSES	<u>\$ 4,002,169</u>	<u>\$ 844,961</u>

The accompanying notes are part of the financial statements.

British Columbia Securities Commission
Statement of Surpluses
For the Year Ended March 31, 2007
(audited)

	<u>General</u>	<u>Fee Stabilization Reserve</u>	<u>Education Reserve</u>	<u>Total</u>
Balance, March 31, 2005	\$ 657,678	\$ 11,821,984	\$ 2,840,981	\$ 15,320,643
Excess of revenues over expenses	844,961	-	-	844,961
Appropriation during the year	<u>236,330</u>	<u>178,016</u>	<u>(414,346)</u>	<u>-</u>
Balance, March 31, 2006	\$ 1,738,969	\$ 12,000,000	\$ 2,426,635	\$ 16,165,604
Excess of revenues over expenses	4,002,169	-	-	4,002,169
Appropriation during the year	<u>(1,914,794)</u>	<u>1,000,000</u>	<u>914,794</u>	<u>-</u>
Balance, March 31, 2007	<u>\$ 3,826,344</u>	<u>\$ 13,000,000</u>	<u>\$ 3,341,429</u>	<u>\$ 20,167,773</u>

The accompanying notes are part of the financial statements.

British Columbia Securities Commission
Statement of Cash Flows
For the Year Ended March 31, 2007
(audited)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from fees	\$ 30,993,072	\$ 28,475,452
Cash receipts from penalties and settlements	1,543,047	779,911
Cash paid to and on behalf of employees	(21,605,930)	(20,219,674)
Cash paid to suppliers and others	(6,587,085)	(7,012,535)
Investment income received	907,116	493,461
	5,250,220	2,516,615
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Paid for capital assets	(239,321)	(269,542)
	5,010,899	2,247,073
Net increase in cash and cash equivalents	5,010,899	2,247,073
Cash and cash equivalents, beginning of year	21,122,256	18,875,183
	\$ 26,133,155	\$ 21,122,256
Cash and cash equivalents, end of year	\$ 26,133,155	\$ 21,122,256
Represented by:		
Cash and short term investments	\$ 9,791,726	\$ 6,695,621
Investments held for designated purposes	16,341,429	14,426,635
	\$ 26,133,155	\$ 21,122,256

The accompanying notes are part of the financial statements.

British Columbia Securities Commission
Notes to Financial Statements
For the Year Ended March 31, 2007
(audited)

1. Nature of operations

The British Columbia Securities Commission is a Crown corporation created by the Province of British Columbia on April 1, 1995. We are responsible for the administration of the *Securities Act*. As a government agency, we pay only those taxes paid by the provincial government.

2. Significant accounting policies

Management has prepared these financial statements according to accounting principles that are generally accepted in Canada. The important accounting policies used are:

a) Short term and designated investments

Under BC law, we must invest any money that we receive, but do not immediately need, in an investment pool that the British Columbia Investment Management Corporation, a BC government organization, administers. We buy units in pooled investment funds that invest primarily in:

- Canadian money market instruments maturing within 15 months, and
- Canadian bonds issued or guaranteed by the government of Canada or a provincial government and maturing within 10 years.

Any earnings from our investments are reinvested in the same fund and add to the carrying value of the units we own.

We value our short term investments and investments held for designated purposes at their market value. The fair value of short term investments and investments held for designated purposes is considered to be the market value. Fair value is the amount that would be agreed upon by two unrelated parties to a transaction who have full knowledge of all relevant facts and who are under no obligation to act.

b) Capital assets

We record our capital assets at cost. We depreciate them using the straight line method over their useful lives. We estimate the useful lives of our assets to be as follows:

- Information technology assets – four years
- Leasehold improvements – the length of the remaining lease term or the length of the estimated useful life of each improvement, whichever time is shorter
- Office furniture and equipment – ten years

c) Revenue

We accrue prospectus and other statutory filing fees when filings are made and collectibility is assured. The amounts due and their collectibility are normally determined simultaneously, as most filings are paid for immediately.

Registration fees are paid to us in advance. We recognize only the portion of fees that relate to the registration period falling in the current fiscal year as revenue. We treat the balance as deferred revenue and recognize it as income in the next year.

We recognize administrative penalties and designated settlements after we issue a decision or reach an agreement and determine the amounts are collectible.

British Columbia Securities Commission
Notes to Financial Statements
For the Year Ended March 31, 2007
(audited)

2. Significant accounting policies (con't)

d) Estimates

Canadian generally accepted accounting principles require management to make estimates and assumptions for certain amounts disclosed in the financial statements.

In our financial statements, management has estimated the:

- portion of accounts and advances receivable that we will receive
- useful lives of capital assets
- value of the employee leave liability

Results may differ from these estimates.

3. Financial instruments

The carrying values of cash and cash equivalent assets, accounts and advances receivable, accounts payable and accrued liabilities, accrued salaries, and employee leave liability approximate their fair value because of their short maturity dates.

Short term investments and investments held for designated purposes are subject to credit risk and interest rate risk. Credit risk is the risk that investment values will fluctuate because debtors cannot pay. We believe this risk is low because most of our investments are in government securities. Interest rate risk is the risk that investment values will fluctuate because of changes in market interest rates. We mitigate this risk by investing primarily in short term instruments.

4. Investments

Investments are carried at market value, and consist of:

		2007			2006		
		Units	Expected Return	Market Value	Units	Expected Return	Market Value
Short term investments	Pooled Canadian Money Market Fund ST2	-	-	\$ -	0.17	4.07%	\$ 574,736
Investments held for designated purposes	Cash	-	-	\$ 688,768	-	-	\$ -
	Pooled Canadian Money Market Fund ST2	2.72	4.50%	9,328,237	2.55	4.07%	8,371,297
	Short Term Bond Fund	3.28	4.15%	6,324,424	3.28	4.12%	6,055,338
			4.17%	\$ 16,341,429		4.09%	\$ 14,426,635

British Columbia Securities Commission
Notes to Financial Statements
For the Year Ended March 31, 2007
(audited)

5. Accounts and advances receivable

Accounts and advances receivable consists of:

	2007	2006
Settlement sanctions	\$ 189,496	\$ -
Hearing & legal cost recoveries	100,000	-
Employee advances and other	48,830	60,968
Filing fees, net of allowance	-	11,104
Rent overpayment due to bank error	-	148,783
	<u>\$ 338,326</u>	<u>\$ 220,855</u>

6. Prepaid expenses and deposits

Prepaid expenses and deposits consists of:

	2007	2006
IDA registration processing fees	\$ 263,437	\$ 234,721
Information technology maintenance contracts	136,483	125,199
Other	10,477	-
Rent	-	148,307
	<u>\$ 410,397</u>	<u>\$ 508,227</u>

7. Capital assets

Capital assets consist of:

	2007			2006
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Leasehold improvements	\$ 4,030,712	\$ 2,271,338	\$ 1,759,374	\$ 2,075,184
Office furniture	1,857,974	1,141,397	716,577	901,050
Office equipment	649,556	464,166	185,390	215,215
Information technology (a)	1,647,410	1,207,242	440,168	751,423
	<u>\$ 8,185,652</u>	<u>\$ 5,084,143</u>	<u>\$ 3,101,509</u>	<u>\$ 3,942,872</u>

a) During the year, we wrote off obsolete, fully depreciated, Information Technology assets. We reduced both the cost of assets and the corresponding accumulated depreciation accounts by \$2,553,886.

8. Employee leave liability

Employee leave liability is what we owe to our employees for their accumulated vacation time and other leave entitlements not yet taken.

9. Reserves

	Fee Stabilization		
	Appropriation (a)	Education (b)	Total
Balance, March 31, 2005	\$ 11,821,984	\$ 2,840,981	\$ 14,662,965
Additions and appropriations	178,016	710,811	888,827
Investment income allocation	-	72,536	72,536
Disbursements	-	(1,197,693)	(1,197,693)
Balance, March 31, 2006	<u>\$ 12,000,000</u>	<u>\$ 2,426,635</u>	<u>\$ 14,426,635</u>
Additions and appropriations	1,000,000	1,432,335	2,432,335
Investment income allocation	-	127,130	127,130
Disbursements	-	(644,671)	(644,671)
Balance, March 31, 2007	<u>\$ 13,000,000</u>	<u>\$ 3,341,429</u>	<u>\$ 16,341,429</u>

British Columbia Securities Commission
Notes to Financial Statements
For the Year Ended March 31, 2007
(audited)

9. Reserves (con't)

a) Fee stabilization reserve

We appropriate amounts from our general surplus to the fee stabilization reserve so temporary revenue reductions will not immediately impair our ability to operate, or require immediate fee increases. This year, we appropriated \$1,000,000 (fiscal 2006 - \$178,016) of the general surplus to the fee stabilization reserve.

b) Education reserve

We collect administrative penalties under section 162 of the *Securities Act*. We also negotiate settlement amounts that exceed our investigation costs. We appropriate both of these amounts from our general surplus to the education reserve. Education reserve funds may only be spent for the purpose of educating securities market participants and members of the public about investing, financial matters or the operation or regulation of securities markets. We mix education reserve funds with our other funds for investment purposes, so we allocate a portion of our investment income to the education reserve.

10. Enforcement revenue

Enforcement revenues are unpredictable. Revenues depend on the timing of enforcement actions completed during the period and on our ability to collect assessed amounts. Collecting enforcement revenues can be difficult because respondents often have limited assets, poor credit or have left British Columbia. During fiscal 2007, \$nil (fiscal 2006 - \$2,328,115) was not recognized as revenue because collectibility was unlikely. We vigorously pursue all uncollected amounts.

11. Related party transactions

We are related through common ownership to all provincial government ministries, agencies and Crown corporations. We conducted all transactions with these entities as though we were unrelated parties.

12. Post-retirement employee benefits

We, and our employees, contribute to the Public Service Pension Plan, a multi-employer plan established for the benefit of certain British Columbia public service employees. The plan is contributory, and its basic benefits are defined. The plan has about 47,000 active members and approximately 35,000 retired members. A board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of assets and administration of benefits.

An actuarial valuation of the plan is performed every three years to assess the financial position of the plan. The latest valuation, as at March 31, 2005, indicated a \$767 million unfunded liability for basic pension benefits. In addition to basic benefits, the plan also provides supplementary benefits, including inflation indexing. These supplementary benefits are paid only to the extent that they have been funded, which is currently done on a "pay-as-you-go" basis. The plan's unfunded liability would increase to \$2,208 million if indexed benefits were funded in advance. Surpluses and deficits are not attributable to individual employers, but affect future contribution levels. We charged \$1,432,252 to expense for employer contributions during the period (fiscal 2006 - \$1,083,770).

British Columbia Securities Commission
Notes to Financial Statements
For the Year Ended March 31, 2007
(audited)

13. Commitments and contingent liabilities

a) Office lease

We have leased office space to November 30, 2011. Our annual rent, net of sublease recoveries is approximately \$925,000. We also pay our share of building operating and maintenance costs.

b) National filing systems operating agreements

CDS INC. (CDS) operates the SEDAR and SEDI national filing systems on behalf of the Canadian Securities Administrators (CSA) under agreements with the Alberta Securities Commission, British Columbia Securities Commission, Ontario Securities Commission (OSC), and l'Autorité des Marchés Financiers (AMF), together called the CSA Principal Administrators. CDS operates the NRD national filing system under agreements with the CSA Principal Administrators and the Investment Dealers Association (IDA). Under the agreements:

- The CSA Principal Administrators must pay CDS if the SEDAR system budgeted operating costs exceed revenues (a "shortfall"). Our portion of any SEDAR shortfall is limited to 15.4%.
- CDS must pay SEDAR revenues in excess of system budgeted operating costs (a "surplus") to the CSA Principal Administrators. Any surplus is not divisible; the CSA Principal Administrators own it as a group.
- CDS and the CSA Principal Administrators agree to share actual versus budgeted system operating cost ("expense") variances equally.

The OSC is holding \$16.2 million in trust. The funds are the national filing systems' accumulated surpluses and expenses variances to October 31, 2006 and interest earned on those amounts to March 31, 2007. The CSA Principal Administrators have agreed that we will use these funds only for the benefit of national filing system users through system enhancements or usage fee adjustments.

c) Legal actions

We are involved in several legal actions arising from the operation of our business. The outcome and ultimate disposition of these actions are not determinable at this time. We do not expect the outcome of any of these proceedings, individually or in total, to have a material impact on our financial position.