

## STATEMENT OF MANAGEMENT RESPONSIBILITY:

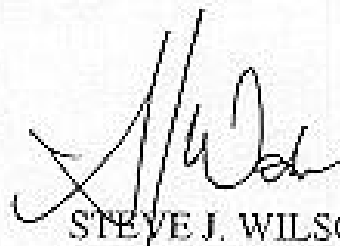
The financial statements of the British Columbia Securities Commission for the year ended March 31, 2000, have been prepared in accordance with generally accepted accounting principles.

Commission management is responsible for the preparation, integrity and objectivity of the financial statements and other financial information presented in the Commission's Annual Report. Systems of internal control are developed and maintained by management to provide reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records are properly maintained to provide reliable basis for preparation of financial statements.

The Commission has approved the financial statements. The Audit Committee of the Commission has reviewed the statements with the external auditors. The Auditor General of British Columbia, appointed the auditor of the Commission by the Lieutenant-Governor-in-Council, has carried out an independent audit of the financial statements in accordance with generally accepted auditing standards. The Auditor's Report outlines the scope of his independent audit and his opinion on the financial statements of the Commission.



DOUGLAS M. HYNDMAN  
*Chair and Chief Executive Officer*



STEVE J. WILSON  
*Executive Director*

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## Report of the Auditor General of British Columbia

*To the Commissioners of the British Columbia Securities Commission, and*

*To the Minister of Finance and Corporate Relations,  
Province of British Columbia:*

I have audited the balance sheet of the *British Columbia Securities Commission* as at March 31, 2000 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 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, 2000 and the results of its operations, its surpluses, and its cash flows for the year then ended in accordance with generally accepted accounting principles.



*Victoria, British Columbia  
May 19, 2000*

Wayne Strelloff, CA  
Auditor General

Balance Sheet  
As at March 31, 2000

	2000	1999
<b>ASSETS</b>		
Current assets:		
Cash and short-term investments (note 6)	\$ 14,347,917	\$ 8,681,629
Accounts receivable (note 7)	270,914	86,221
Prepaid expenses and deposits	<u>241,894</u>	<u>200</u>
	14,860,725	8,768,250
Investments held for designated purposes (note 8)	13,642,928	11,301,559
Capital assets (note 9)	<u>2,159,261</u>	<u>1,990,411</u>
	<u><u>\$ 30,662,914</u></u>	<u><u>\$ 22,060,220</u></u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,400,615	\$ 1,109,159
Deferred revenue	4,726,270	4,207,086
Employee leave liability (note 10)	<u>1,211,393</u>	<u>1,118,142</u>
	7,338,278	6,434,387
Deferred revenue	1,593,466	1,420,662
<b>SURPLUSES</b>		
Contributed	1,415,018	1,415,018
General	6,673,224	1,489,404
Fee stabilization reserve (note 8(a))	12,000,000	10,000,000
Education reserve (note 8(b))	<u>1,642,928</u>	<u>1,301,559</u>
	<u>21,731,170</u>	<u>14,204,981</u>
	<u><u>\$ 30,662,914</u></u>	<u><u>\$ 22,060,220</u></u>

Commitment and contingent liability (note 16)

See accompanying notes to the financial statements.

Approved on behalf of the Commission:



DOUGLAS M. HYNDMAN  
Chair



JOHN K. GRAF  
Member

Statement of Operations  
For the Year Ended March 31, 2000

	2000	1999
<b>REVENUES</b>		
Fees by division		
Corporate finance		
Prospectus, distribution, and A.I.F. fees	\$ 11,851,307	\$ 11,135,360
Statutory filings	3,640,957	3,402,490
Registration	6,147,358	5,590,505
Exemptions and orders	2,754,583	2,429,350
Information and records	179,240	196,235
Administrative penalties and designated settlements (note 11)	268,960	1,164,440
Enforcement cost recoveries (note 11)	1,234,585	706,847
Interest income	1,253,950	1,474,725
	<u>27,330,951</u>	<u>26,100,954</u>
 <b>EXPENSES</b>		
Salaries and benefits	13,354,169	11,209,070
Building occupancy (note 15(a))	1,278,790	679,260
Information technology	1,132,312	893,100
Depreciation (note 2(b)(i))	1,135,117	721,684
Professional services	855,378	972,927
Administration	801,608	765,942
External communications	475,902	580,826
Business travel	368,934	288,617
Staff training	277,709	245,905
Telecommunications	124,843	129,052
Securities fraud office (note 12)	-	476,509
	<u>19,804,762</u>	<u>18,982,912</u>
 <b>EXCESS OF REVENUES OVER EXPENSES</b>	 <u>\$ 7,526,189</u>	 <u>\$ 9,138,042</u>

	Contributed Surplus	General	Fee Stabilization Reserve (note 8(a))	Education Reserve (note 8(b))	Total
Balance, March 31, 1998	\$ 1,415,018	\$ 15,514,802	\$ -	\$ 137,119	\$ 17,066,939
Excess of revenues over expenses of the year	-	9,138,042	-	-	9,138,042
Transfer of funds to the Province (note 13)	-	(12,000,000)	-	-	(12,000,000)
Appropriation during the year	-	(11,164,440)	10,000,000	1,164,440	-
Balance, March 31, 1999	1,415,018	1,488,404	10,000,000	1,301,559	14,204,981
Excess of revenues over expenses of the year	-	7,526,189	-	-	7,526,189
Appropriation during the year	-	(2,341,369)	2,000,000	341,369	-
Balance, March 31, 2000	\$ 1,415,018	\$ 6,673,224	\$ 12,000,000	\$ 1,642,928	\$ 21,731,270

See accompanying notes to the financial statements.

Statement of Cash Flows  
For the Year Ended March 31, 2000

	2000	1999
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from fees	\$ 25,095,640	\$ 23,930,806
Cash receipts from penalties and settlements	268,950	1,164,440
Cash paid to employees	(12,725,783)	(10,988,751)
Cash paid to suppliers	(4,476,436)	(5,208,483)
Interest received	1,227,289	1,474,725
	<u>9,388,670</u>	<u>10,372,737</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of capital assets	(1,381,213)	(1,079,397)
	<u>(1,381,213)</u>	<u>(1,079,397)</u>
<b>TRANSFER OF FUNDS TO THE PROVINCE</b>	-	(12,000,000)
	<u>-</u>	<u>(12,000,000)</u>
Net increase (decrease) in cash and cash equivalents	8,007,457	(2,706,660)
Cash and cash equivalents, beginning of year	19,903,388	22,690,048
Cash and cash equivalents, end of year	<u>\$ 27,910,845</u>	<u>\$ 19,983,388</u>
Represented by:		
Cash and short-term investments	\$ 14,347,917	\$ 8,681,829
Investments held for designated purposes	13,562,928	11,301,559
	<u>\$ 27,910,845</u>	<u>\$ 19,983,388</u>

See accompanying notes to the financial statements.

1. Nature of operations

The British Columbia Securities Commission (the "Commission") was established as a Crown corporation effective April 1, 1995. As the agency responsible for administering and enforcing the Securities Act, the Commission functions as an independent regulatory agency and administrative tribunal responsible for regulating the trading of securities and exchange contracts in the Province of British Columbia (the "Province"). As an agent of the Province, the Commission is not liable to taxation, except insofar as the government is liable.

The Province transferred to the Commission net assets of \$1,415,018 on April 1, 1995 when the Commission was established as a Crown corporation. This amount represents a contribution to the Commission's surplus (see note 13).

2. Significant accounting policies

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

(a) Short-term and designated investments

Pursuant to section 18(1) of the Securities Act, the Commission is obliged to place with the Minister of Finance and Corporate Relations, for investment purposes, any money received but not immediately required for operations. Short-term and designated investments consist of units, redeemable on a daily basis, in a Province of British Columbia Pooled Investment Portfolio that invests primarily in Canadian money market instruments maturing within 15 months. Short-term and designated investments are carried at the lower of cost, adjusted by income attributed to the Commission's units, and market value.

(b) Capital assets

Capital assets are recorded at cost, and depreciation is calculated using the straight-line method over the estimated useful lives of the related assets, as follows:

- Office furniture and equipment – ten years (i)
- Information technology – three years
- Leaschold improvements – five years (i)

Capital assets transferred from the Province have been recorded at their net book value as at April 1, 1995, and are depreciated on the above basis over their remaining useful lives.

- i) During the year the Commission signed a lease agreement that will result in the relocation of the Commission's operations effective November 1, 2000. Depreciation relating to office furniture and leasehold improvements has been accelerated to reflect the shortened economic lives of these assets. (note 16(a)).

(c) Revenue

Fees for services provided in conjunction with prospectus and other statutory filings are recorded when cash is received.

Registration fees are deferred and recognized in income over the terms of the related registration which, depending upon the type of registration, is either 12 or 24 months.

Administrative penalties and designated settlements and enforcement cost recoveries are recorded as revenue on an accrual basis unless management determines there is no reasonable assurance as to ultimate collection, in which case they will be recognized as revenue when collected.

3. Financial instruments

(a) The carrying values of cash, accounts receivable, accounts payable and accrued liabilities, and employee leave liability approximate their fair value due to the short periods to maturity of these instruments.

(b) The fair value of short-term investments, as disclosed in note 6, and the fair value of investments held for designated purpose, as disclosed in note 8, is market value.

4. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of accounts receivable, useful lives for depreciation of capital assets, and the valuation of employee leave liability. Actual results could differ from these estimates.

5. Comparative figures

Certain of the prior year's comparative figures have been reclassified to conform to the presentation adopted for the current year.

6. Short-term investments

Short-term investments is comprised of the Commission's investment in units of the Province's Pooled Canadian Money Market Fund ST2. As at March 31, 2000, the Commission held 9.01 units of this fund having a carrying value of \$24,188,515, of which \$10,545,587 is undesignated and \$13,642,928 is designated (note 8). The market value of short-term investments is \$24,197,232.



British Columbia Securities Commission  
Notes to Financial Statements  
Year ended March 31, 2000

7. Accounts receivable

Accounts receivable are comprised of:

	2000	1999
Registration revenue receivable	\$ 159,613	\$ -
Interest receivable	48,000	21,339
Enforcement settlements	-	2,500
Other receivables	53,301	62,302
	<u>\$ 270,914</u>	<u>\$ 85,221</u>

8. Investments held for designated purposes

	Fee Stabilization Appropriation (a)	Education (b)		Total	Total
		Section 162	Appropriation		
Balance, beginning of year	\$ 10,000,000	\$ 213,519	\$ 1,088,040	\$ 1,301,559	\$ 11,301,559
Additions during year	2,000,000	12,000	256,960	268,960	2,268,960
Investment income allocation	-	10,201	62,208	72,409	72,409
Balance, end of year	<u>\$ 12,000,000</u>	<u>\$ 235,720</u>	<u>\$ 1,407,208</u>	<u>\$ 1,642,928</u>	<u>\$ 13,642,928</u>

Although no statutory requirement exists, management has allocated a portion of investment income to the Section 162 fund.

These investments are held with the Province as described in note 6 for the following designated purposes:

(a) Fee stabilization

For the year ended March 31, 2000, the Commission appropriated \$2,000,000 (1999 - \$10,000,000) of retained earnings to a Fee Stabilization Reserve. The Commission intends to alter its fee structure so that revenue more closely matches budgeted expenses. Accordingly, the Fee Stabilization Reserve was established to ensure that an unexpected drop in revenue does not result in immediate fee increases for market participants. The Commission will draw upon the Fee Stabilization Reserve in future years when fee revenue falls below existing and anticipated commitments.

(b) Education

For the year ended March 31, 2000, \$12,000 (1999 - \$76,400) was collected for administrative penalties under section 162 of the Securities Act and \$256,960 (1999 - \$1,088,040) was collected from the portion of negotiated settlements not allocated to cost recovery. These amounts, along with collections from previous years totaling \$1,301,559 and interest income for the year totaling \$72,409, are held in the Education Reserve. These amounts are to be expended only for the purpose of promoting knowledge of participants in the securities market of the legal, regulatory and ethical standards that govern the operation of the securities market in British Columbia.

British Columbia Securities Commission  
Notes to Financial Statements  
Year ended March 31, 2000

9. Capital assets

	2000			1999
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Leasehold Improvements (note 2(b)(i))	\$ 1,026,947	\$ 570,817	\$ 456,130	\$ 635,865
Office Furniture (note 2(b)(i))	440,911	315,649	125,062	210,592
Office Equipment	352,229	90,740	271,489	240,432
Information Technology	3,843,153	2,536,573	1,306,580	903,612
	<u>\$ 5,673,240</u>	<u>\$ 3,513,979</u>	<u>\$ 2,159,261</u>	<u>\$1,990,411</u>

10. Employee leave liability

Employee leave liability represents amounts accrued for vacation and other leave entitlements.

11. Enforcement revenue

During the year, enforcement cost recoveries totaling \$1,234,586 (1999 - \$706,847) and administrative penalties and designated settlements totaling \$268,960 (1999 - \$1,164,440) were collected and recognized as revenue. However, due to the uncertainty of collection of these types of assessments, they are not recognized as revenue until received. Accordingly, a further \$2,445,931 (1999 - \$293,942) of administrative penalties, settlements and recoveries were assessed this fiscal year but not recognized as revenue. The Commission maintains records of all settlements and orders for collection purposes.

Enforcement revenue is therefore comprised of collections of both current and prior year orders and settlements, as follows:

	Administrative penalties and designated settlements		Enforcement cost recoveries	
	2000	1999	2000	1999
	Current year	\$241,340	\$1,097,040	\$1,171,510
Prior years	27,620	67,400	63,076	20,625
	<u>\$268,960</u>	<u>\$1,164,440</u>	<u>\$1,234,586</u>	<u>\$706,847</u>

12. Securities Fraud Office

In fiscal 1995/1996, a three-year Securities Fraud Office pilot project was established as a joint project among the Commission, the Royal Canadian Mounted Police and the Ministry of Attorney General. During the year ended March 31, 1999, the Commission concluded that its resources would be more effectively directed toward administrative remedies and enforcement proceedings, and, accordingly, funding was not continued after the pilot project ended.

13. Transfer of funds to the Province

In 1998 the Province enacted the *Budget Measures Implementation Act, 1998*. Under section 25 of that Act, the Minister of Finance and Corporate Relations directed the Commission to pay \$12 million to the Province for the year ended March 31, 1999.

14. Related party transactions

The Commission is related through common ownership to all Province of British Columbia ministries, agencies and Crown corporations. Transactions with these entities, other than those noted separately, are considered to be in the normal course of operations, and are recorded at the exchange amount.

15. Pension and post-retirement benefits

(a) The Commission is an approved employer under the Pension (Public Service) Act. Eligible employees and the Commission contribute to the Public Service Pension Plan. An actuarial valuation of the assets and liabilities of the Public Service Pension Plan made at March 31, 1999 indicated a surplus. As a result of this, and previous evaluations, the Commission received rebates of employer contributions totaling \$543,582 during the fiscal year which have been accounted for as a reduction of salaries and benefits expense.

(b) Employees of the Commission are eligible for the same post-retirement benefits as other public sector employees. These include the payments for the medical services plan and extended health care premiums. No provision has been made in the accounts of the Commission for this liability.

16. Commitment and contingent liability

(a) Office relocation and lease

The Commission has signed an agreement to lease office space for a period of eleven years commencing November, 2000 which provides for lease payments of approximately \$702,000 per annum for the first six years and \$858,000 per annum thereafter. The lease also requires the Commission to pay its proportionate share of building operating and maintenance costs.

(b) Mutual Fund Dealers Association of Canada

The Mutual Fund Dealers Association of Canada (MFDA) is an organization formed by the mutual fund industry to act as a self-regulatory organization for that industry. The Commission, together with the Ontario Securities Commission and the Alberta Securities Commission, has guaranteed severally, and not jointly, the obligations of the MFDA under certain credit facilities provided to the MFDA by a Canadian chartered bank. The maximum obligation of the three commissions under the guarantee is \$12 million. The Commission's portion of the guarantee of the liabilities outstanding from time to time is capped at 21%.

Pursuant to an agreement with the MFDA, the credit facility is limited to \$5.6 million until each participating Commission has approved the business plan of the MFDA and its fee structure. At present, no Commission has approved the business plan and fee structure of the MFDA. The credit facility balance as of March 31, 2000 is \$4,670,000 of which, in the event of default, the Commission would be liable for a maximum of \$980,700.