Financial Statements of

ONTARIO SECURITIES COMMISSION

For the Year Ended March 31, 2004

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Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381   Fax: (416) 327-9862

Auditor's Report

To the Ontario Securities Commission

I have audited the balance sheet of the Ontario Securities Commission as at March 31, 2004 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

"J. R. McCarter"

Toronto, Ontario
May 7, 2004

J. R. McCarter, CA
Assistant Provincial Auditor

ONTARIO SECURITIES COMMISSION
Balance Sheet
As at March 31, 2004

	2004	2003
ASSETS		
CURRENT		
Cash	$ 30,652,492	$ 22,704,342
Accounts receivable	1,427,708	2,139,605
Prepaid expenses	465,923	401,421
	32,546,123	25,245,368
DESIGNATED SETTLEMENTS (Note 9)	2,000,711	474
RESERVE FUND ASSETS (Note 3)	32,000,000	32,000,000
CAPITAL ASSETS (Note 5)	5,237,023	7,039,570
	$ 71,783,857	$ 64,285,412
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 8,077,550	$ 9,854,764
Due to Province of Ontario (Note 11(a))	-	14,480,975
	8,077,550	24,335,739
NON-CURRENT		
Other long term liabilities (Note 8(b))	928,060	813,131
	9,005,610	25,148,870
DESIGNATED SETTLEMENTS (Note 9)	2,000,711	474
SURPLUS		
OPERATING		
General (Note 6)	28,679,292	7,037,824
Reserve (Note 3)	32,000,000	32,000,000
	60,679,292	39,037,824
CONTRIBUTED	98,244	98,244
	60,777,536	39,136,068
	$ 71,783,857	$ 64,285,412

Investor Education Fund (Note 10)
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, 2004

	2004	2003
REVENUE		
Fees (Note 6)	$ 74,854,942	$ 68,995,363
Investment income	1,672,727	1,375,337
Miscellaneous	84,973	102,208
	76,612,642	70,472,908
EXPENSES		
Salaries and benefits (Note 8)	40,688,739	38,278,354
Administrative	4,561,661	6,617,364
Occupancy (Note 7)	3,972,891	3,726,817
Amortization	3,233,401	3,069,103
Professional services (Note 2b)	1,415,905	3,122,824
Other	1,098,577	1,059,811
	54,971,174	55,874,273
EXCESS OF REVENUE OVER EXPENSES	21,641,468	14,598,635
OPERATING SURPLUS, BEGINNING OF PERIOD	39,037,824	41,375,164
LESS: Distributions to Province of Ontario (Note 11(a))	-	16,935,975
OPERATING SURPLUS, END OF PERIOD	$ 60,679,292	$ 39,037,824
Represented by:		
General	$ 28,679,292	$ 7,037,824
Reserve	32,000,000	32,000,000
	$ 60,679,292	$ 39,037,824

See accompanying notes to Financial Statements.

ONTARIO SECURITIES COMMISSION
Statement of Cash Flows
For the year ended March 31, 2004

	2004	2003
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
Cash flows from operating activities		
Excess of revenue over expenses	$ 21,641,468	$ 14,598,635
Adjustments for amortization	3,233,401	3,069,103
	24,874,869	17,667,738
Changes in non-cash working capital:		
Accounts receivable	711,897	(1,135,371)
Prepaid expenses	(64,502)	20,831
Due to Province of Ontario	(14,480,975)	8,583,027
Accounts payable and accrued liabilities	(1,777,214)	1,598,834
Other long term liabilities	114,929	282,336
	(15,495,865)	9,349,657
	9,379,004	27,017,395
Cash flows from financing activities		
Distributions to Province of Ontario	-	(16,935,975)
	-	(16,935,975)
Cash flows from investing activities		
Purchase of capital assets	(1,430,854)	(2,231,763)
	(1,430,854)	(2,231,763)
NET INCREASE (DECREASE) IN CASH POSITION	7,948,150	7,849,657
CASH POSITION, BEGINNING OF PERIOD	22,704,342	14,854,685
CASH POSITION, END OF PERIOD	$ 30,652,492	$ 22,704,342

See accompanying notes to Financial Statements.

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, as follows:

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

b) Revenue

Fees are recognized when earned which is normally upon receipt.

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.

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 11(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, 2004, 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 is credited to the operations of the Commission.

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, 2004, the MFDA has drawn $0 (2003 - $2,963,000) on this line of credit. Interest is charged at prime plus 0.50% per annum. In March 2004, the Commissions requested that the MFDA arrange for their removal as guarantors to the agreement. This request will be taken to the MFDA Board in June 2004.

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.

5. CAPITAL ASSETS

	Cost	Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
Office furniture	$ 2,832,884	$ 1,858,821	$ 974,063	$ 1,503,676
Office equipment	282,246	179,875	102,371	151,026
Computer hardware and related applications	10,571,990	8,298,812	2,273,178	2,238,438
Leasehold improvements	5,828,866	3,941,455	1,887,411	3,146,430
	$ 19,515,986	$ 14,278,963	$ 5,237,023	$ 7,039,570

6. 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. Transitional fees represent one-time fees to facilitate the change to the new fee structure.

Under the new fee model, the Commission sets fees over a three-year horizon, and, accordingly, the General Operating Surplus at March 31, 2004 of $28,679,292, adjusted for surpluses or deficits in 2005 and 2006, will be reflected in the fees set for the following three-year cycle beginning in 2007.

The structure of the previous fee regime was based on the concept of "activity fees" alone, and as such, fees received under the new fee model cannot be compared on a line by line basis. Details of fees received for the year ended March 31, 2004 are as follows:

Participation Fees	$ 33,880,566
Transitional Fees	26,826,132
Activity Fees	11,765,826
Late filings Fees	2,382,418
Total	$ 74,854,942

Details of fees received for the year ended March 31, 2003 were as follows:

Prospectus filings	$ 35,853,829
Registration	26,724,635
Disclosure filings	5,105,622
Applications for exemptive relief	1,311,277
Total	$ 68,995,363

7. LEASE OBLIGATIONS

Operating

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

2005	$3,885,043
2006	$1,673,922
2007	$ 82,504
2008	$ 51,205
2009	$ 0

8. PENSION PLANS

a) The Commission's contribution to the Public Service Pension Plan for the year ended March 31, 2004 was $2,104,631 (2003 - $1,346,895) and is included in salaries and benefits.

b) The unfunded supplemental pension plans had an accrued benefit obligation of $735,476 at March 31, 2004 (2003 - $544,565). The Commission's related expense for the year was $114,929 (2003 - $282,336) and is included in salaries and benefits. No benefits were paid during the year (2003 - $0). The average remaining service period of the active members covered by these plans ranges from .25 to 5.04 years (2002 - .92 to 3.85 years). The significant actuarial assumptions adopted at March 31, 2004 include a discount rate of 5.5% (2003 – 6.5%) and a rate of compensation increase of 2.5%, if applicable (2003 – 0.0%).

9. 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, subject to the approval of the Minister of Finance. The accumulated funds are held in a segregated bank account. As at March 31, 2004, the accumulated balance is determined as follows:

	2004	**2003**
Opening balance	$ 474	$ 130,878
Settlements	1,999,400	150,000
Interest	1,311	3,474
Payments		
Investor Education Fund – prior period	(474)	(130,878)
Investor Education Fund – current period	-	(153,000)
Investor Education Fund – total	(474)	(283,878)
Closing balance	$2,000,711	$ 474
Represented by:		
Cash	$1,628,195	$101
Receivables	372,516	373
	$2,000,711	$474

10. 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 managed by an independent Board of Directors and its purpose is 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. Financial statements of the Fund are available on request. Financial summaries of this unconsolidated entity as at March 31, 2004 and for the year ended March 31, 2004 are as follows:

INVESTOR EDUCATION FUND

	2004	2003
Financial Position		
Total assets	$7,037,458	$7,598,660
Total liabilities	$235,808	$166,285
Invested in capital assets	753,806	164,027
Available for Fund purposes	6,047,844	7,268,348
Total net assets	6,801,650	7,432,375
	$7,037,458	$7,598,660
Results of Operations		
Total contributions and interest income	$700,852	$369,047
Total expenses	1,331,577	1,109,991
Excess (deficiency) of revenue over expenses	($630,725)	($740,944)
Cash flows		
Cash flows from operating activities		
Cash receipts from the Ontario Securities Commission	$474	$283,878
Cash receipts from third parties	500,000	8,000
Investment income received	207,033	196,439
Cash paid for initiatives and expenses	(1,180,041)	(1,135,825)
Cash paid for capital purchases	(671,792)	(164,027)
Net increase (decrease) in cash position	(1,144,326)	(811,535)
Cash position, beginning of period	7,415,470	8,227,005
Cash position, end of period	$6,271,144	$7,415,470

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

i) The Board of the Commission did not authorize any transfers of the Commission's Designated Settlements to the Fund (2003 - $153,474) as a result of an amendment to the *Securities Act* that requires that such transfers are approved by the Minister of Finance.

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

For the period ended March 31, 2004, the Commission incurred costs totalling $386,735 (2003 - $310,923) for services related to the Fund. The total cost of these services has been charged back to the Fund and, of this amount, $105,980 is owing to the Commission as of March 31, 2004 (2003 - $116,288).

11. 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 light of the new fee model as described in note 6 and the Commission's plans to set fees in three-year cycles, the Commission is no longer required to make quarterly remittances of its surplus to the Consolidated Revenue Fund. Surpluses retained by the Commission are subject to appropriate terms and conditions to be agreed to with the Ministry.

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.

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. At March 31, 2004, legislation has not yet been introduced.

13. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to current presentation.