

FINANCIAL SERVICES COMMISSION OF ONTARIO
Financial statements
For the year ended March 31, 2013



Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Independent Auditor's Report

**To the Financial Services Commission of Ontario
and to the Minister of Finance**

I have audited the accompanying financial statements of the Financial Services Commission of Ontario, which comprises the statement of financial position as at March 31, 2013, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility 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.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Financial Services Commission of Ontario as at March 31, 2013 and the results of its operations, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Gary Peall, CPA, CA, LPA
Deputy Auditor General

Toronto, Ontario
October 15, 2013

Box 105, 15th Floor
20 Dundas Street West
Toronto, Ontario
M5G 2C2
416-327-2381
fax 416-326-3812

B.P. 105, 15^e étage
20, rue Dundas ouest
Toronto (Ontario)
M5G 2C2
416-327-2381
télécopieur 416-326-3812

FINANCIAL SERVICES COMMISSION OF ONTARIO

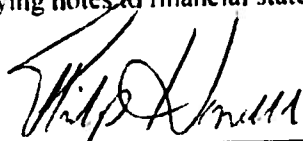
Statement of Financial Position As at March 31, 2013

	March 31, 2013 (\$'000)	March 31, 2012 (\$'000)
ASSETS		
Current		
Cash	5	7
Accounts receivable	106	430
Prepaid expenses	0	37
	<u>111</u>	<u>474</u>
 Due from the Province (Note 7b)	 <u>34,947</u>	 <u>31,813</u>
 Capital assets, net (Note 3)	 <u>10,401</u>	 <u>12,896</u>
	<u>45,459</u>	<u>45,183</u>
 LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities	<u>14,465</u>	<u>10,095</u>
	14,465	10,095
 Employee future benefits obligation (Note 7a)	 9,260	 8,930
 Deferred revenue (Note 4)	 10,490	 11,886
 Deferred lease inducements (Note 5)	 843	 1,376
 Net assets		
Invested in capital assets	<u>10,401</u>	<u>12,896</u>
	<u>45,459</u>	<u>45,183</u>

Commitment, Significant Contract and Contingencies (Note 9)

See accompanying notes to financial statements

Approved by:



Chief Executive Officer and
Superintendent of Financial Services

FINANCIAL SERVICES COMMISSION OF ONTARIO

Statement of Operations For the Year Ended March 31, 2013

	March 31, 2013 (\$'000)	March 31, 2012 (\$'000)
Revenue (Note 6)		
Assessments	56,102	48,183
Fees, Licenses, registrations and other	<u>10,475</u>	<u>11,400</u>
	<u>66,577</u>	<u>59,583</u>
Expenses		
Salaries and wages	37,960	37,811
Employee benefits (Note 7a)	8,509	8,912
Transportation and communication	812	717
Services	21,626	14,596
Supplies and equipment	453	652
Amortization	3,210	2,422
Bad debt expense	<u>53</u>	<u>80</u>
	<u>72,623</u>	<u>65,190</u>
Less: Recoveries (Note 8)	<u>3,217</u>	<u>3,251</u>
	<u>69,406</u>	<u>61,939</u>
Deficiency of revenue over expenses absorbed by the Province (Note 6)	<u>(2,829)</u>	<u>(2,356)</u>

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Statement of Cash Flows For the year ended March 31, 2013

	March 31, 2013 (\$ 000)	March 31, 2012 (\$ 000)
Net inflow (outflow) of cash related to the following activities		
Cash flows from operating activities		
Deficiency of revenue over expenses absorbed by the Province	(2,829)	(2,356)
Items not affecting cash		
Amortization of capital assets	3,210	2,422
Employee future benefits (Note 7a)	330	893
Bad debt expense	53	80
Changes in non-cash working capital		
Accounts receivable	271	(335)
Prepaid expenses	37	(5)
Accounts payable and accrued liabilities	4,370	(717)
Due from the Province	(2,800)	2,922
Amortization of deferred lease inducements	(533)	(533)
Deferred Revenue	<u>(1,396)</u>	<u>2,140</u>
	713	4,511
Cash flows from capital activity		
Purchase of capital assets	<u>(715)</u>	<u>(4,510)</u>
	(715)	(4,510)
Net change in cash position	(2)	1
Cash position, beginning of year	7	6
Cash position, end of year	<u><u>5</u></u>	<u><u>7</u></u>

See accompanying notes to financial statements

FINANCIAL SERVICES COMMISSION OF ONTARIO

Notes to Financial Statements

March 31, 2013

1. OPERATIONS OF THE COMMISSION

The Financial Services Commission of Ontario (Commission) was established under the *Financial Services Commission of Ontario Act, 1997*. The Commission's mandate through its regulated activities is to protect the public interest and enhance public confidence in insurance, pensions, credit unions, trust companies, caisses populaires, co-operatives and mortgage brokers, and also to make recommendations to the Minister of Finance on matters affecting the regulated sectors. The Commission administers the following legislation: *Insurance Act, Pension Benefits Act, Credit Unions and Caisses Populaires Act, Loan and Trust Corporations Act, Mortgage Brokerages, Lenders and Administrators Act and Co-operative Corporations Act*. As a regulatory agency of the Province of Ontario, the Commission is exempt from income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared by the management of the Commission in accordance with Public Sector Accounting Standards for not-for-profit organizations (PSA-NPO) as issued by the Public Sector Accounting Board (PSAB). The significant accounting policies used to prepare these statements are summarized below.

(a) Capital Assets:

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over their estimated useful life. The useful life of the Commission's capital assets has been estimated as follows:

Purchased software	3 years
Custom developed software	5 years
Office furniture and equipment	5 years
Computer hardware	3-6 years
Leasehold improvements	over the term of the lease

(b) Revenue Recognition

Assessment revenues from the insurance, pension, credit union, caisses populaires and the loan and trust sectors are recognized when the recoverable costs to administer the various Acts governing these sectors are incurred.

Revenues from fees, licenses and registrations are recognized in the year to which they pertain.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Notes to Financial Statements March 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Financial Instruments

The Commission follows PSA-NPO pertaining to financial instruments. Under these standards, all financial instruments are included on the statement of financial position and are measured either at fair value or at cost or amortized cost. The Commission's Accounts receivable, and the Accounts payable and accrued liabilities are recorded at cost in the financial statements.

(d) Use of Estimates

The preparation of financial statements in accordance with PSA-NPO requires that management make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses for the period. Actual amounts could differ from these estimates.

3. CAPITAL ASSETS

	2013		2012	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	(\$'000)			
Purchased computer software	87	87	0	3
Custom developed software	8,107	5,334	2,773	2,949
Custom software under development	2,209	0	2,209	2,380
Leasehold improvements	7,630	3,987	3,643	5,053
Computer hardware	2,422	1,620	802	1,093
Office furniture and equipment	2,233	1,259	974	1,418
	22,688	12,287	10,401	12,896

FINANCIAL SERVICES COMMISSION OF ONTARIO

Notes to Financial Statements March 31, 2013

4. DEFERRED REVENUE RELATED TO LICENCES AND REGISTRATION

Deferred revenue represents payments received for fees, licences and registrations that cover more than the current fiscal year. The deferred portion is recognized as revenue when the applicable future licence year occurs. The changes in the deferred revenue balances during fiscal 2012-13 are summarized as follows:

	Balance, beginning of year	Received during year	Recognized during year	Balance, end of year
	(\$'000)			
Insurance Agents	3,450	4,223	3,729	3,944
Insurance Adjusters	21	107	108	20
Mortgage Brokers	7,138	2,121	4,340	4,919
Insurance Corporations	828	1,203	984	1,047
Other	449	803	692	560
	11,886	8,457	9,853	10,490

5. DEFERRED LEASE INDUCEMENTS

The Commission's office accommodation lease was extended from October 31, 2008 to October 31, 2015 with two further options to extend the term for five years each. The lease extension included a leasehold improvement allowance in the amount of \$2.005 million for renovations in the first two years and no base rent payable in the amount of \$0.64 million for the first ten months of the lease extension. The Commission has utilized the entire allowance.

The deferred lease inducement is made up of the portion of future lease payments attributed to the rent-free period and the leasehold improvements allowance and will be recognized as reduced rent expense over the term of the lease on a straight line basis.

	2013 (\$'000)	2012 (\$'000)
Balance, beginning of year	1,908	2,441
Less: Lease Inducements Amortization	(533)	(533)
Deferred Lease Inducements	<u>1,375</u>	<u>1,908</u>
Less: current portion	(532)	(532)
Balance, end of year	<u><u>843</u></u>	<u><u>1,376</u></u>

FINANCIAL SERVICES COMMISSION OF ONTARIO

Notes to Financial Statements March 31, 2013

6. REVENUE

Under *The Financial Services Commission of Ontario Act*, the Commission may recover all of its costs through revenue assessments and fees charged to all entities that form part of the regulated sectors. The Commission's deficiency of \$2.8 million (2012 - \$2.4 million) resulted mostly from the Financial Hardship Program waiver of fees that continued in 2013 and the deficiency from the Co-operatives sector. The deficiency has been absorbed by the Province and is reflected in the due from the Province on the statement of financial position. For the fiscal year, revenue from the following Acts and regulations made under the Acts administered by the Commission are:

	2013 (\$'000)	2012 (\$'000)
<i>Insurance Act</i>		
Insurer assessment	37,696	30,726
Fees, licenses and other	5,901	5,426
<i>Pension Benefits Act</i>		
Pension plan assessment	17,663	16,683
Registration fees and other	52	118
Pension unlocking fees and other	0	0
<i>Credit Unions and Caisses Populaires Act</i>		
Credit Union assessment	583	722
Fees and other	92	152
<i>Loan and Trust Corporations Act</i>		
Loan and Trust assessment	160	52
Fees, licenses and registrations	2	7
<i>Mortgage Brokerages, Lenders and Administrators Act</i>		
Fees, Licenses, Registrations and other	4,393	5,682
<i>Co-operative Corporations Act</i>		
Fees and other	35	15
	<u>66,577</u>	<u>59,583</u>

FINANCIAL SERVICES COMMISSION OF ONTARIO

Notes to Financial Statements March 31, 2013

7. RELATED PARTY TRANSACTIONS

(a) Employee Benefits

The Commission's employees are entitled to benefits that have been negotiated centrally for Ontario Public Service employees. The future liability for benefits earned by the Commission's employees is recognized in the Province's consolidated financial statements. These benefits are accounted for by the Commission as follows:

i. Pension Benefits

The Commission's full-time employees participate in the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU-PF), which are defined benefit pension plans for employees of the Province and many provincial agencies. The Province of Ontario, which is the sole sponsor of the PSPF and a joint sponsor of the OPSEU-PF, determines the Commission's annual payments to the funds. Since the Commission is not a sponsor of these funds, gains and losses arising from statutory actuarial funding valuations are not assets or obligations of the Commission, as the sponsors are responsible for ensuring that the pension funds are financially viable. The Commission's annual payments of \$3.08 million (2012 - \$2.95 million) are included in employee benefits in the Statement of Operations.

ii. Employee Future Benefits Obligation

Employee future benefits include accrued severance entitlements, unused vacation and other future compensation entitlements earned. Severance entitlements under the *Public Service of Ontario Act (2006)* were non-actuarially estimated based on one week pay for every year of service for those employees with a minimum of five years of service. These costs for the year amount to \$0.245 million (2012 - \$0.792 million) and are included in employee benefits and salaries and wages in the Statement of Operations. Amounts due within one year totaling \$2.66 million (2012 - \$2.75 million) are included in accounts payable and accrued liabilities.

iii. Other Non-Pension Post-Employment Benefits

The cost of other non-pension post-retirement benefits is determined and funded on an ongoing basis by the Ontario Ministry of Government Services and accordingly is not included in these financial statements.

(b) Amounts due from the Province

The due from the Province balance reflected in the financial statements is the difference between the cash receipts submitted to the Province and the Commission's expenses paid, owing or absorbed by the Province.

FINANCIAL SERVICES COMMISSION OF ONTARIO

Notes to Financial Statements March 31, 2013

7. RELATED PARTY TRANSACTIONS (cont'd)

(c) Other administrative expenses

The Ontario Ministry of Government Services absorbs the costs of certain administrative expenses. The Ministry of Finance has charged for administrative costs related to information technology and the Ministry of Attorney General has charged for legal staff provided to the Commission based on the Ministry's actual costs.

8. RECOVERIES

The Commission provides administrative and other support services to a number of organizations and recovers the costs of providing these services from the organizations in accordance with the memorandum of understanding or agreement signed with the respective organizations. Details of these recoveries are as follows:

	2013 (\$'000)	2012 (\$'000)
Motor Vehicle Accident Claims Fund (Related Party)	1,727	1,711
Pension Benefits Guarantee Fund (Related Party)	474	480
General Insurance Statistical Agency	314	409
Joint Forum of Financial Market Regulators	222	242
Canadian Association of Pension Supervisory Authorities	183	174
Canadian Council of Insurance Regulators	208	222
Mortgage Broker Regulators' Council of Canada	78	0
Canada Revenue Agency	11	13
	<u>3,217</u>	<u>3,251</u>

9. COMMITMENT, SIGNIFICANT CONTRACT AND CONTINGENCIES

(a) Office Accommodation Lease

The Commission's office accommodation lease has been extended from October 31, 2008 to October 31, 2015 as explained in Note 5. As a result the Commission is committed to minimum lease payments for office space as follows:

	(\$'000)
2013/2014	5,285
2014/2015	5,350
2015/2016	3,160
	<u>13,795</u>

FINANCIAL SERVICES COMMISSION OF ONTARIO

Notes to Financial Statements March 31, 2013

9. COMMITMENT, SIGNIFICANT CONTRACT AND CONTINGENCIES (cont'd)

(b) Dispute Resolution Services Contract

In August 2012, the Commission entered into a contract with an outside service provider for mediation and arbitration services. The expenditures for the year for this contract amount to \$4.4 million and it is anticipated that the costs to be incurred for these services during fiscal 2014 and fiscal 2015 will be \$19 - 22 million annually in addition to the Commission's normal expenditures.

(c) Contingencies

The Commission is involved in various legal actions arising out of the ordinary course of business. Settlements paid by the Commission, if any, 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.

10. FINANCIAL INSTRUMENTS

The Commission is exposed to low credit risk in its financial instruments from accounts receivable owing from industry, and is not exposed to any currency, interest rate or liquidity risk.

11. SECURITIES ON DEPOSIT

The *Insurance Act* authorizes the Commission to require insurance companies to deposit securities in any amount it considers necessary and on such conditions as it considers proper. Such amounts might be held to satisfy requirements of other jurisdictions with which the Province of Ontario has reciprocal agreements.

As at March 31, 2013, the market value of the securities held by the Commission under the *Insurance Act* was \$0.052 million (2012 - \$0.158 million).

Income earned on the securities is paid directly to the insurance companies depositing the securities. These securities and the related income are not recorded in the financial statements.