

BC Financial Services Authority
Financial Statements
As at March 31, 2021
and
for the year ended March 31, 2021

BC Financial Services Authority
Management Report

The financial statements of BC Financial Services Authority ("BCFSA") were prepared by management in accordance with the financial reporting framework disclosed in note 2 to the financial statements, and include amounts based upon management's best estimates and judgments. In management's opinion, the financial statements have been properly prepared within the framework of the accounting policies summarized in the financial statements and incorporate, within reasonable limits of materiality, all information available at May 14, 2021.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel, and appropriate delegation of authority and segregation of responsibilities within BCFSA.

The Board of Directors has established an Audit and Finance Committee to provide oversight in the fulfillment by management of these responsibilities. The Audit and Finance Committee, comprising directors who are not employees, meets with management and external auditors regarding the proper discharge of management's responsibilities with respect to financial statement presentation, disclosure and recommendations on internal control.

The financial statements have been examined by BDO Canada LLP, BCFSA's independent external auditors. The external auditors' responsibility is to express their opinion on whether the financial statements, present fairly, in all material respects, BCFSA's financial position, results of operations, changes in net financial assets (debt) and cash flows in accordance with Canadian public sector accounting standards. Their Auditor's Report, which follows, outlines the scope of their examination and their opinion.



Blair Morrison
Chief Executive Officer



David Sherwood
Chief Financial Officer

Vancouver, BC
May 14, 2021



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Independent Auditor's Report

To the Board of Directors of the BC Financial Services Authority

And to the Minister of Finance, British Columbia

Opinion

We have audited the financial statements of BC Financial Services Authority ("BCFSA"), which comprise the Statement of Financial Position as at March 31, 2021, and the Statements of Operations, Changes in Net Assets (Debt) and Cash Flows for the year ended March 31, 2021, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the BCFSA as at March 31, 2021, and its results of operations, its changes in net financial assets and cash flows for the for the year ended March 31, 2021 in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the BCFSA in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the BCFSA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the BCFSA or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the BCFSA's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an



auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 BCFSa's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the BCFSa's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the BCFSa to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants

Vancouver, British Columbia

May 14, 2021

BC Financial Services Authority

Statement of Financial Position

As at March 31, 2021 (\$'000)

	March 31, 2021	March 31, 2020
Financial Assets		
Cash	\$ 11,010	\$ 8,911
Accounts receivable (note 3)	12,715	10,650
Due from government/other government organizations (note 4)	259	1,024
	<u>23,984</u>	<u>20,585</u>
Liabilities		
Accounts payable and accrued liabilities (note 5)	2,177	2,622
Employee future benefits (note 6)	677	654
Due to government/other government organizations (note 4)	621	3,422
	<u>3,475</u>	<u>6,698</u>
Net financial assets	<u>20,509</u>	<u>13,887</u>
Non-financial assets		
Tangible capital assets (note 9)	7,176	583
Prepaid expenses	660	91
	<u>7,836</u>	<u>674</u>
Accumulated surplus (note 11)	<u>\$ 28,345</u>	<u>\$ 14,561</u>

Approved by the Board of Directors



Chair



Director

The accompanying notes are an integral part of the financial statements.

BC Financial Services Authority

Statement of Operations

For the year ended March 31, 2021 (\$'000)

	Budget (note 14)	March 31, 2021	5 Months ended March 31, 2020
Revenues			
Licensing, registration and other fees	\$ 17,096	\$ 21,798	\$ 12,652
Government grants	5,346	11,539	5,471
Recovery from government organizations (note 7)	9,803	9,091	3,711
Other	-	242	34
	<u>32,245</u>	<u>42,670</u>	<u>21,868</u>
Expenses (note 12)			
Regulatory operations	21,565	20,445	8,691
CUDIC administration (note 7 and 13)	9,426	8,441	3,468
	<u>30,991</u>	<u>28,886</u>	<u>12,159</u>
Annual surplus	1,254	13,784	9,709
Accumulated surplus - Beginning of period (note 11)	<u>14,561</u>	<u>14,561</u>	<u>4,852</u>
Accumulated surplus - End of period	<u>\$ 15,815</u>	<u>\$ 28,345</u>	<u>\$ 14,561</u>

The accompanying notes are an integral part of the financial statements.

BC Financial Services Authority
Statement of Changes in Net Financial Assets (Debt)
For the year ended March 31, 2021 (\$'000)

	Budget	March 31, 2021	5 Months ended March 31, 2020
Annual surplus	\$ 1,254	\$ 13,784	\$ 9,709
Acquisition of tangible capital assets	-	(6,911)	-
Amortization of tangible capital assets	505	318	132
	<u>1,759</u>	<u>7,191</u>	<u>9,841</u>
Acquisition of prepaid expenses	(91)	(660)	(91)
Use of prepaid expenses	91	91	74
	<u>-</u>	<u>(569)</u>	<u>(17)</u>
Increase in net financial assets	1,759	6,622	9,824
Net financial assets - Beginning of period	<u>13,887</u>	<u>13,887</u>	<u>4,063</u>
Net financial assets - End of period	<u>\$ 15,646</u>	<u>\$ 20,509</u>	<u>\$ 13,887</u>

The accompanying notes are an integral part of the financial statements.

BC Financial Services Authority

Statement of Cash Flows

For the year ended March 31, 2021 (\$'000)

	March 31, 2021	5 Months ended March 31, 2020
Cash provided by (used in)		
Operating activities		
Annual surplus	\$ 13,784	\$ 9,709
Items not involving cash		
Amortization of tangible capital assets	<u>318</u>	<u>132</u>
	14,102	9,841
Changes in non-cash assets and liabilities		
Accounts receivable	(2,065)	(2,502)
Prepaid expenses	(569)	(17)
Accounts payable, accrued liabilities and future employee benefits	(422)	1,663
Due to / from government/other government organizations	<u>(2,036)</u>	<u>(74)</u>
	<u>(5,092)</u>	<u>(930)</u>
Capital Activities		
Acquisition of tangible capital assets	(6,911)	-
Increase in cash	2,099	8,911
Cash - beginning of year	<u>8,911</u>	<u>-</u>
Cash - end of year	<u>\$ 11,010</u>	<u>\$ 8,911</u>

The accompanying notes are an integral part of the financial statements.

BC Financial Services Authority

Notes to the Financial Statements

For the year ended March 31, 2021 (Tabular amounts in \$'000)

1 Nature of operations

BC Financial Services Authority ("BCFSA") is a Vancouver-based crown regulatory agency of the Province of British Columbia. As the regulator of British Columbia's financial services sector, BCFSA exercises the powers and performs duties under seven statutes. Its core regulatory accountabilities relate to credit unions, insurance and trust companies, mortgage brokers and pension plans and the administration of Credit Union Deposit Insurance Corporation ("CUDIC").

BCFSA was created effective June 4, 2019, pursuant to the Financial Services Authority Act. On November 1, 2019, BCFSA assumed the regulatory accountabilities of Financial Institutions Commission ("FICOM") which was originally established as part of the Ministry of Finance in 1989 to contribute to the safety and stability of the British Columbia financial sector.

BCFSA is exempt from income taxes under the Income Tax Act.

The COVID-19 pandemic "COVID-19" has had a significant impact on the economy of Canada and globally. BCFSA has not, to date, experienced significant financial impacts as a result of the pandemic. However, as COVID-19 continues to impact the financial services sector and the economy in general, there could be specific impacts on BCFSA's operations and financial results. Given the dynamic nature of these circumstances, the duration of disruption and the related financial impact cannot be reasonably estimated at this time. Potential impacts include reduced revenue from regulated entities.

2 Summary of significant accounting policies

Basis of accounting

These financial statements have been prepared in accordance with Canadian public sector accounting standards ("PSAS"), as issued by the Canadian Public Sector Accounting Board ("PSAB").

The financial statements were authorized for issue by the Board of Directors on May 13, 2021

Revenue recognition

BCFSA recognizes revenue in accordance with PS 3400 - Revenue "PS 3400". Revenue from exchange transactions, or revenue based on performance obligations, is recognized when the performance obligation is satisfied. Revenue from the issuance of a license or registration is recognized at the point in time when the license or registration is issued. Unilateral revenue, or revenue without performance obligations, is recognized when the authority to claim or retain an inflow of economic resources exists and collection is reasonably certain. Revenue from an annual filing fee, which is payable for a given operating period, is recognized at the commencement of the operating period to which the fee relates.

Administrative penalties are initially deferred and recognized as revenue when they are expended in accordance with the requirements set out in relevant legislation.

BC Financial Services Authority

Notes to the Financial Statements

For the year ended March 31, 2021 (Tabular amounts in \$'000)

2 Summary of significant accounting policies - Continued

Government transfers

Government transfers are recognized as revenue when the transfer is authorized and any eligibility criteria have been met, except to the extent that any stipulations result in a liability. Amounts deferred as a result of stipulations are recognized in the period the stipulations are met.

Trusts under administration

Trusts under administration by BCFSa include the assets and liabilities of CUDIC, a related party of BCFSa that guarantees all the deposits and non-equity shares of British Columbian regulated credit unions. Trusts under administration are not included in the financial statements, as the assets are not held for the benefit of BCFSa.

Tangible capital assets

Tangible capital assets are recorded at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset.

The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Furniture and equipment	5 years
Personal computer hardware and software	3 years
Systems and software	5 years
Tenant improvements	lease term

Tangible capital assets are written down when conditions indicate that they no longer contribute to BCFSa's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. Any write-downs are accounted for as expenses in the statement of operations as impairment losses. Impairments recorded are never reversed.

Employee future benefits

a) Retirement allowance

Liabilities are recorded for employee retirement allowance benefits as employees render services to earn the benefits. The actuarial determination of the accrued benefit obligations uses the projected benefit method prorated based on service.

BC Financial Services Authority

Notes to the Financial Statements

For the year ended March 31, 2021 (Tabular amounts in \$'000)

2 Summary of significant accounting policies - Continued

Employee future benefits - Continued

a) Retirement allowance - Continued

The cumulative unrecognized actuarial gains and losses on retirement allowance benefits are amortized over the expected average remaining service period of active employees covered under the plan. The discount rate used to measure the obligations is based on the Municipal Finance Authority of British Columbia's cost of borrowing.

b) Defined contribution plans and multi-employer benefit plans:

BCFSA and its employees contribute to the Public Service Pension Plan (the "Pension Plan"), a multi-employer defined benefit pension plan governed by the BC Public Sector Pension Plans Act. Defined contribution plan accounting is applied to multi-employer defined benefit plans and, accordingly, contributions are expensed when they become payable.

Prepaid expenses

Prepaid expenses include rent and subscriptions for memberships and are charged to expense, over the periods expected to benefit from them, in the statement of operations.

Expenses

Expenses are recorded on an accrual basis. The cost of all goods consumed, and services received during the year is expensed in the statement of operations.

Financial instruments

BCFSA's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities and amounts due from / due to government and other government organizations. Financial instruments are initially recorded at fair market value and subsequently measured at cost.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations.

The fair values of the BCFSA's financial instruments generally approximate their carrying amounts due to their short terms to maturity.

BC Financial Services Authority

Notes to the Financial Statements

For the year ended March 31, 2021 (Tabular amounts in \$'000)

2 Summary of significant accounting policies - Continued

Measurement uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Significant areas requiring the use of estimates include the valuation of accounts receivable, estimated useful lives of tangible capital assets, contingent liabilities and future costs to settle employee benefit obligations.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Actual results could differ from the estimates.

BC Financial Services Authority

Notes to the Financial Statements

For the year ended March 31, 2021 (Tabular amounts in \$'000)

3 Accounts receivable

	March 31, 2021	March 31, 2020
Recoveries from CUDIC	\$ 1,623	\$ 1,486
Regulated Entities/Individuals	10,993	9,148
Administrative orders	260	220
Other	28	17
	<u>12,904</u>	<u>10,871</u>
Provision for losses (note 8)	<u>(189)</u>	<u>(221)</u>
	<u>\$ 12,715</u>	<u>\$ 10,650</u>

4 Due to/from government and other government organizations

Due From:

	March 31, 2021	March 31, 2020
Province of British Columbia	\$ -	\$ 835
Federal Government of Canada	<u>259</u>	<u>189</u>
	<u>259</u>	<u>1,024</u>

Due To:

Province of British Columbia	337	3,047
Federal Government of Canada	<u>284</u>	<u>375</u>
	<u>\$ 621</u>	<u>\$ 3,422</u>

5 Accounts payable and accrued liabilities

	March 31, 2021	March 31, 2020
Trade accounts payables and accrued liabilities	\$ 1,016	\$ 1,508
Accrued salary and benefits liabilities	<u>1,161</u>	<u>1,114</u>
	<u>\$ 2,177</u>	<u>\$ 2,622</u>

BC Financial Services Authority

Notes to the Financial Statements

For the year ended March 31, 2021 (Tabular amounts in \$'000)

6 Employee future benefits

a) Retirement allowance

Information about the BCFSAs retirement allowance is as follows:

	March 31, 2021	March 31, 2020
Accrued benefit obligation - Beginning of period	\$ 323	\$ 343
Current period benefit cost	32	13
Interest cost	9	7
Benefits paid	-	(40)
(Gain)/loss on accrued benefit obligation	4	-
Accrued benefit obligation	368	323
Unamortized actuarial gain	309	331
Liability - End of period	\$ 677	\$ 674

The significant actuarial assumptions adopted in measuring BCFSAs retirement allowance are as follows:

	March 31, 2021	March 31, 2020
At beginning of period		
Discount rate	2.50%	2.60%
Rate of compensation increase	2.00%	2.00%
Expected Average Remaining Service Life (years)	18	18

The most recent full actuarial valuation was prepared as of March 31, 2020, the next expected full valuation will be prepared as of March 31, 2022.

b) Employee Pension Benefits

Employer contributions to Pension Plan of \$1,532,000 were expensed during the year. Every three years, an actuarial valuation is performed to assess the financial position of the plan and the adequacy of Pension Plan funding. The most recent actuarial valuation for the Pension Plan at March 31, 2020 indicated a funding surplus of approximately \$2,667,000,000. The actuary does not attribute portions of the surplus to individual employers. The Pension Plan covers approximately 64,000 active members, of which approximately 183 are employees of BCFSAs.

7 Inter-entity transactions

BCFSAs receives information technology services from the Province of British Columbia, a related party, at nominal charge.

BCFSAs provides administrative services to CUDIC, a related party, on a cost recovery basis. Total recoveries from CUDIC for the year ended March 31, 2021 amount to \$8,441,000.

BC Financial Services Authority

Notes to the Financial Statements

For the year ended March 31, 2021 (Tabular amounts in \$'000)

8 Risk management

As a result of its financial instruments, BCFSa is exposed to credit risk and liquidity risk. A qualitative and quantitative analysis of those risks is provided below.

Credit risk

Credit risk is the risk of loss resulting from failure of an individual or group to honour their financial obligations. BCFSa's accounts receivable in the amount of \$12,715,000 are due primarily from credit unions, pension plans, related entities and insurance companies. To mitigate this risk, BCFSa periodically reviews the collectability of its accounts receivable and establishes a provision based on its best estimate of potentially uncollectible amounts. As at March 31, 2021, the amount of provision for losses is \$189,000 (note 3). BCFSa's cash, which is held at Canadian financial institutions, is not exposed to significant credit risk.

Liquidity risk

Liquidity risk is the risk that BCFSa will not be able to meet its financial operating obligations as they become due. It is BCFSa's intention to meet its financial obligations through the collection of current accounts receivable, cash on hand, and future licensing, registration and other fee revenue.

BCFSa's principal source of revenue is from its licensing and registration accountabilities.

All BCFSa's financial assets and liabilities mature within one year.

9 Tangible capital assets

	Personal Computer	Systems and Software	Tenant Improve- ments	Total Assets
Cost				
Opening balance	\$ -	\$ -	\$ 715	\$ 715
Additions	507	6,404	-	6,911
Closing balance	<u>507</u>	<u>6,404</u>	<u>715</u>	<u>7,626</u>
Accumulated amortization				
Opening balance	-	-	132	132
Amortizations	-	-	318	318
Closing balance	<u>-</u>	<u>-</u>	<u>450</u>	<u>450</u>
Net book value	<u>\$ 507</u>	<u>\$ 6,404</u>	<u>\$ 265</u>	<u>\$ 7,176</u>

BC Financial Services Authority

Notes to the Financial Statements

For the year ended March 31, 2021 (Tabular amounts in \$'000)

10 Commitments and contingencies

The aggregate minimum future annual rentals under operating leases and major contract commitments for the years ending March 31 are as follows:

	Rentals	Systems and software
2022	\$ 1,548	\$ 4,118
2023	512	-
2024	531	-
2025	550	-
2026	574	-
	<u>\$ 3,715</u>	<u>\$ 4,118</u>

11 Acquired assets

On November 1, 2019, BCFSFA purchased the assets and liabilities of FICOM at their net carrying amount as at October 31, 2019. The net surplus of FICOM of \$871,000 for the period April 1, 2019 to October 31, 2019 was provided to BCFSFA as an operating grant. The assets and liabilities acquired are recorded as the opening position in the statement of financial position consistent with BCFSFA's accounting policies. The opening accumulated surplus as at November 1, 2019 in the amount of \$4,852,000 represents the full effect of the adoption of PS 3400 by BCFSFA as part of its first financial statements under PSAS on formation. FICOM had not previously adopted PS 3400.

12 Expenses by type

The following is a summary of expenses by type:

	Year ended March 31, 2021	5 months ended March 31, 2020
Compensation and benefits	\$ 19,636	\$ 7,187
Professional services	4,709	3,037
Office and administrative	4,223	1,803
Amortization	318	132
	<u>\$ 28,886</u>	<u>\$ 12,159</u>

BC Financial Services Authority

Notes to the Financial Statements

For the year ended March 31, 2021 (Tabular amounts in \$'000)

13 CUDIC administration

BCFSA acts as the administrator of CUDIC. The assets, liabilities and operating results of CUDIC have not been included in the statement of financial position or in the statement of operations. As at March 31, the balances of CUDIC are as follows:

	March 31, 2021	March 31, 2020
Assets	\$ 794,694	\$ 778,419
Liabilities	<u>2,987</u>	<u>4,250</u>
Equity	<u>\$ 791,707</u>	<u>\$ 774,169</u>

14 Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the budgets approved by the Board of Directors of BCFSA on January 9, 2020. The budget was prepared based on approved government grant funding that had been received by BCFSA. The variances between budget and actuals exist primarily due to government grant funding to support BCFSA's investment in technology that was received in 2020 and 2021 fiscal years.

15 Subsequent events

In November 2019, the Minister of Finance announced that the Real Estate Council of British Columbia ("RECBC") and the Office of the Superintendent of Real Estate ("OSRE") would be combined with BCFSA. The date when RECBC and OSRE transition to BCFSA (the "Transition Date") will depend on when the required legislative amendments come into force, but it is anticipated to occur in the fiscal year ending March 31, 2022. On the Transition Date, the assets and liabilities of RECBC and OSRE will be transferred to BCFSA, and OSRE and RECBC, in their current forms, will both cease to exist.