

ALBERTA SECURITIES COMMISSION

Interim Financial Statements and Management's Discussion & Analysis

For the Three Months Ended June 30, 2011
(unaudited)

Management's Discussion and Analysis

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ASC REPORTS FISCAL 2012 FIRST QUARTER RESULTS MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A), prepared as of July 14, 2012 for the three months ended June 30, 2011 should be read in conjunction with annual MD&A and financial statements reported in the Commission's Annual Report, as well as the appended June 30, 2011 interim financial statements.

During the first quarter ended June 30, 2011 the Alberta Securities Commission (ASC) lost \$1 million compared to a loss of \$1.6 million in the first quarter of the prior year. Revenues in the current quarter were \$800,000 more than the first quarter of last year. Investment income increased \$249,000, the result of robust equity returns, and fee revenue increased \$876,000. Fee increases reflect strength in all aspects of capital market activity including distributions, registrations and mutual fund sales. Revenue increases were partially offset by the variable nature of enforcement receipts for settlements and administrative penalties that were \$315,000 less in the current quarter. Expenses increased \$145,000 in the current period, primarily the result of annual compensation increases, additional staff and new premises rent. These increases were offset by reduced investor education and professional service costs that vary because of project timing.

Comparison to Budget - The first quarter loss of \$1 million was less than the budgeted loss of \$2.9 million. Revenues exceeded budget by \$539,000. Robust registration fees continue to exceed budget. Investment income reflected strong quarterly gains in the equity markets. Expenses were \$911,000 less than budget due to professional staff vacancies, the variable timing of projects and related professional services costs, reduced office operations and travel costs and an unused budget contingency. The fiscal year-end loss is forecast to be approximately \$4.7 million, \$3.1 million less than the budget loss. Reductions in the budgeted loss are expected as the result of fee income exceeding budgets by \$500,000, while enforcement receipts may be less than budget by \$400,000. Further, an unused budget contingency of \$2 million and cost reductions of \$1.0 million, primarily arising because of staff vacancies, contribute to the loss reduction forecast.

Cash flow and Liquidity - The Commission's cash flow during the first nine months is negative because 50% of annual fee revenues are received in the 4th quarter. A cash transfer from investments, scheduled for the third quarter and estimated at \$3 million for F2012, will provide funds for operations.

Capital assets - Capital additions planned for F2012 of approximately \$550,000 are primarily for information technology development and final furniture, fixtures and technology enhancements arising from the December 2010 office relocation. Costs incurred to date include furniture and fixtures of \$55,000 and new location technology enhancements of \$12,000.

Copies of the unaudited interim financial statements for the period ended June 30, 2011 follow.

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The Alberta Securities Commission (ASC) is the regulatory agency responsible for administering the province's securities laws. It is entrusted to foster a fair and efficient capital market in Alberta and to protect investors. As a member of the Canadian Securities Administrators, the ASC works to improve, coordinate and harmonize the regulation of Canada's capital markets.

Statement of Financial Position

	(\$ thousands)	
	June 30 2011	March 31 2011
	(unaudited)	
Assets		
Cash	\$ 6,515	\$ 9,114
Accounts receivable	138	140
Prepaid expenses	87	112
Investments (Note 2)	28,776	28,238
Capital assets	9,656	9,991
	\$ 45,172	\$ 47,595
Liabilities		
Accounts payable and accrued liabilities	\$ 2,578	\$ 4,084
Accrued vacation and benefit liabilities	501	501
Lease inducement	3,158	3,213
Accrued benefit liability	4,487	4,351
	10,724	12,149
Net assets		
Net assets, beginning of period	35,446	37,772
Net operating results	(998)	(2,326)
Net assets, end of period	34,448	35,446
	\$ 45,172	\$ 47,595

The accompanying notes are part of these financial statements.

Statement of Operations

(\$ thousands)

	For the three months ended June 30		
	2011		2010
	Budget	Actual	Actual
	(Note 4)		
Revenue			
Fees	\$ 5,397	\$ 6,053	\$ 5,172
Investment Income	429	562	313
Settlement payments and cost recoveries	-	72	375
Conference fees and other	-	2	13
Administrative penalties	330	7	21
	<u>6,156</u>	<u>6,696</u>	<u>5,894</u>
Expense			
Salaries and benefits	5,919	5,404	5,228
Administration	897	731	716
Professional services	776	443	555
Premises	632	710	551
Amortization	321	402	387
Investor education	60	4	111
	<u>8,605</u>	<u>7,694</u>	<u>7,548</u>
Budget contingency	497		
Net operating results	<u>\$ (2,946)</u>	<u>\$ (998)</u>	<u>\$ (1,654)</u>

The accompanying notes are part of these financial statements.

Statement of Cash Flows

(unaudited)

	<i>(\$ thousands)</i>	
	For the three months ended June 30	
	2011	2010
Operating transactions		
Fees and other	\$ 6,038	\$ 5,161
Settlement payments and cost recoveries	73	375
Payments to and on behalf of employees	(6,133)	(6,156)
Payments to suppliers for goods and services	(1,781)	(1,937)
Investment income	562	313
Administrative penalties	8	28
Cash used in operating transactions	(1,233)	(2,216)
Capital transactions		
Cash used to acquire capital assets	(829)	(1,118)
Cash used in capital transactions	(829)	(1,118)
Investing transactions		
Increase in restricted cash	-	(1)
Increase in portfolio investments	(538)	(293)
Cash used in investing transactions	(538)	(294)
Decrease in cash	(2,599)	(3,628)
Opening cash	9,114	11,343
Closing cash	\$ 6,515	\$ 7,715

The accompanying notes are part of these financial statements.

Notes to the Interim Financial Statements

(\$ thousands)

Note 1 Significant Accounting Policies

These interim financial statements have been prepared in accordance with Canadian public sector accounting standards and include certain financial statement line item presentation and disclosure changes from the most recent annual audited financial statements dated March 31, 2011. These interim financial statements do not contain all the disclosures required for annual financial statements and should, accordingly, be read together with the most recent annual audited financial statements.

Note 2 Investments

The Alberta Securities Commission (ASC) investments are independently managed by The Alberta Investment Management Corporation (AIMCo). AIMCo is a provincial corporation responsible to the Minister of Finance and Enterprise. The ASC does not participate in capital market investment decisions or transactions.

The following summarizes the ASC's investments:

	June 30, 2011			March 31, 2011		
	Cost	Fair Value	%	Cost	Fair Value	%
Cash						
Deposit in the CCITF	\$ 6,515	\$ 6,515		\$ 9,114	\$ 9,114	
Investments						
Deposit in the CCITF	\$ 76	\$ 76	0.3	\$ 75	\$ 75	0.2
Fixed-income securities	21,418	21,341	73.3	21,041	20,823	71.9
Equities	7,282	8,684	26.4	7,122	8,080	27.9
	\$ 28,776	\$29,101	100.0	\$ 28,238	\$28,978	100.0

CCITF (Consolidated Cash Investment Trust Fund) is an AIMCo managed demand deposit cash withdrawal account.

Note 3 Funds held for others, Market Integrity Computer Analysis (MICA) and Canadian Securities Administrators (CSA)

The Ontario Securities Commission was holding at June 30, 2011 approximately \$65 million in trust for the principal CSA administrators who administer CSA operated national systems. These funds represent fees paid by users of CSA national systems that exceed costs of system operation. The principal CSA administrators, including the ASC, have agreed that these surplus amounts can only be used to offset any shortfall in revenues, to develop or enhance the systems and to reduce fees charged to users. The CSA is beginning remediation of these systems and has committed approximately \$1 million to commence this process, with expenditure to date of \$807,000.

Note 4 Budget for the year ended March 31, 2012
Approved by the Commission January 12, 2011

Revenue

Fees and other	\$26,499
Investment income	1,714
Administrative penalty and settlement receipts	<u>1,300</u>
Total revenue	<u>29,513</u>

Expense

Salaries and benefits	23,664
Administration	3,515
Professional services	3,705
Premises	2,528
Amortization	1,286
Investor education	<u>615</u>
Total expense	<u>35,313</u>
Budget contingency	<u>1,987</u>
Loss	<u><u>(\$7,787)</u></u>

Quarterly budget allocations are determined as follows:

Revenues are prorated based on historical monthly cash receipt experience and anticipated changes in these patterns.

Expenses are amortized on a straight-line basis over 12 months except for certain expenses aggregating \$4.7 million that have time specific forecasts.

The timing variability of contract expenditures results in non-salary expenditure variances.

Budgets for administrative penalty and settlement receipts are based on historical annual averages and allocated on a monthly straight-line basis. These receipts are the result of settlement negotiations, hearing outcomes and cost recovery assessments. Actual receipt quantum and timing is not predictable.

The fiscal 2012 budget includes a contingency of \$2.0 million. The Commission has not used any of this contingency to date.