



SOCAN 2010 Financial Report

SOCAN 2010 Financial Report

A Word from SOCAN's Chief Financial Officer

Despite the uncertain economic climate in the first half of 2010, SOCAN achieved record collections of \$275.4-million for the year (2009: \$249.0-million). This was an increase of 10.6 percent. Excluding private-copying royalties and one-time arrears payments, SOCAN's revenue increased by 4.7 percent from 2009.

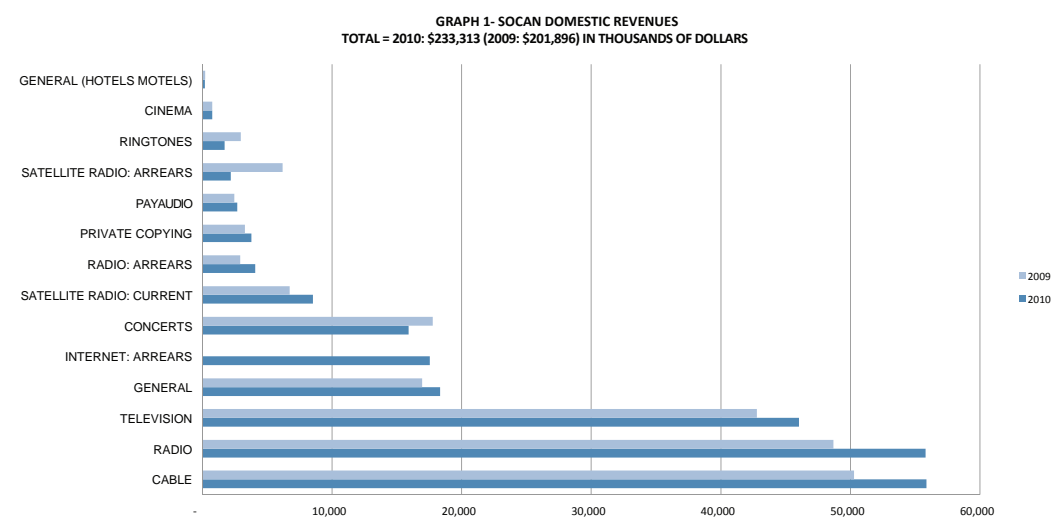
In addition to strong year-over-year growth there were some significant events that contributed to our success:

- SOCAN was finally able to include as revenue Tariff 22A Internet Online Music Services revenue, collected over the last few years, of \$17.5-million. This follows the Federal Court of Appeal rendering various judgments on judicial review of decisions of the Copyright Board. However, SOCAN must continue to withhold the distribution of these amounts pending final determination by the Supreme Court of Canada on issues raised by licensees who sought, and were granted leave to appeal, the Federal Court of Appeal's Decision of September 2, 2010. SOCAN also sought, and was granted leave to appeal to the Supreme Court of Canada on other issues flowing from a Federal Court of Appeal Decision dated May 14, 2010. It is anticipated that both those cases will be heard on December 6, 2011. The outcome is likely to be known in 2012.
- An outstanding dispute with commercial radio broadcasters over a change in the revenue base for Tariff 1A has been resolved. Radio stations agreed to pay back certain deductions no later than September 30, 2011 and, as a result, SOCAN recognized an additional \$4.1-million of Commercial Radio revenue for the period January 2003 to December 2009.
- In February 2011, Vancouver hosted the Winter Olympics which generated over \$3.5-million in revenue from increased advertising and live events.

There are three sources of revenue: domestic performing rights (licence fees from Canadian radio, television, cable, pay audio, satellite radio, Internet, ringtones, concerts, cinemas and other general licensing tariffs); international royalties (via international affiliated PROs, covering foreign performances of works by SOCAN members); and private-copying royalties.

Domestic Revenue

As shown on Graph No.1, SOCAN's domestic revenue for 2010 increased by \$31.4-million to \$233.3-million (2009: \$201.9-million). Domestic revenues consist of performing rights \$229.5-million (2009: \$198.6-million) and private-copying \$3.8-million (2009: \$3.3-million).



Performing Rights Revenue

The increase for performing rights year-over-year is \$30.9-million. Major increases are attributed to the recognition of Internet current and arrears of \$17.5-million. Cable continues to have strong subscriber and advertising results with increased revenues of \$5.6-million over 2009. The Winter Olympics in Vancouver generated over \$3.5-million from increased TV advertising and live events. Satellite radio also had a strong 2010 with an increase of \$1.8-million.

For radio, current revenues and arrears increased from 2009 respectively by \$7.1-million and \$1.2-million. In 2009, broadcasters withheld \$5.9-million of fees as a result of a dispute over a change in the definition of advertising revenue within Tariff 1A. Based on a settlement agreement, the radio stations are to repay an estimated \$4.1-million to SOCAN in 2010 and 2011, which for financial statement purposes will all be recognized in 2010.

There were some areas where we collected less money, including satellite arrears where there was \$6.0-million in 2009 and \$2.0-million in 2010, reduced ringtone fees of \$1.3-million and fewer major acts touring in Canada, reducing concerts revenue by \$1.9-million.

Excluding the effect of one-off events, SOCAN's performing rights revenue increased by 6.8 percent in 2010.

Private-Copying Royalties

SOCAN is a member of the Canadian Private Copying Collective (CPCC). The CPCC collects private-copying revenues generated by the sale of blank CDs, audiotapes and similar media. The resulting funds are distributed based on radio airplay and CD sales. SOCAN claims royalties on behalf of those members who have assigned SOCAN the right to collect their private-copying royalties. In 2010, SOCAN received \$3.8-million (2009: \$3.3-million) from the CPCC.

SOCAN's 2010 private-copying revenue comes from CPCC analysis of works that received radio airplay and enjoyed CD sales in the period 2000-2009. SOCAN continues to deduct only the direct costs incurred in the distribution of private-copying royalties. In 2010, these direct overhead charges averaged 2.5 percent (2009: 4.5 percent), the decrease being a result of increased revenue.

International Royalties

Royalties from international affiliated PROs decreased by \$5.0-million in 2010, for a total of \$42.1-million (2009: \$47.1-million). The decrease arose mainly from a stronger Canadian Dollar against the majority of foreign currencies. Foreign distributions received at source currency remained the same year over year.

Graph No. 2 shows a breakdown of international revenue SOCAN received from the top ten PROs for the past two years and a summary total for those outside the top ten. The top two earning PROs for SOCAN members were ASCAP and BMI from the US, where, in 2010, approximately \$15.5-million was collected (2009: \$18.5-million), representing 36.8 percent of total international royalties. The next top earning PRO was France's SACEM, where SOCAN collected royalty income of \$6.2-million (2009: \$5.9-million), representing 14.7 percent of total international royalties. The top ten PROs accounted for 83.2 percent of SOCAN's international royalties, in line with the 83.8 percent in 2009.

GRAPH NO. 2; ROYALTIES FROM INTERNATIONAL AFFILIATED SOCIETIES

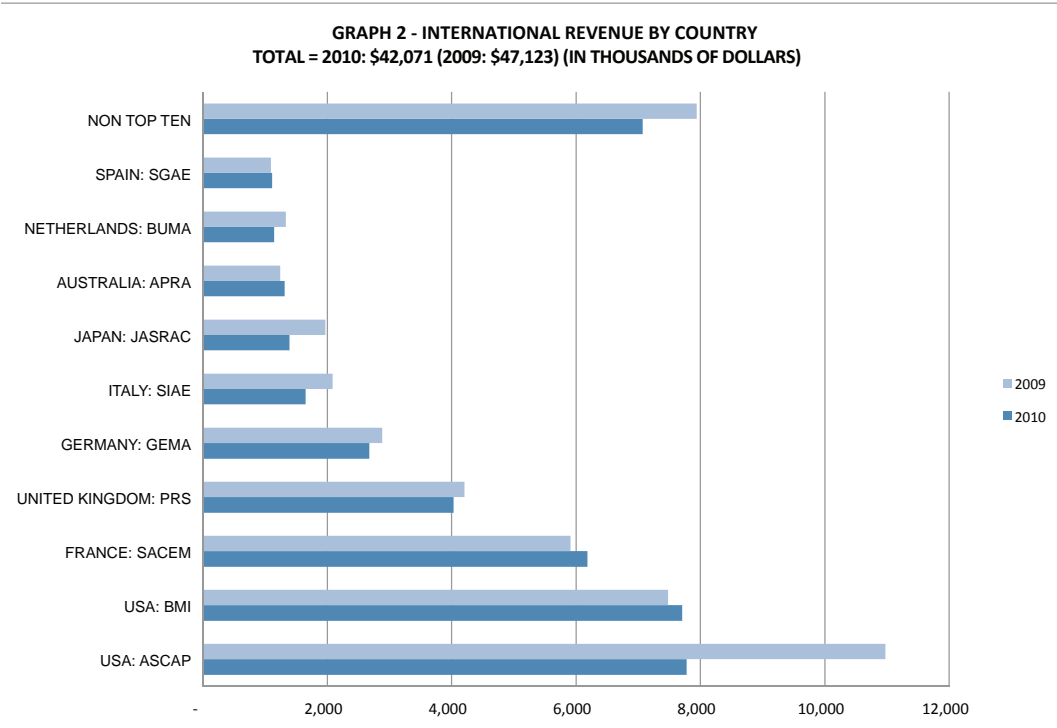


Table No. 1 details the international revenue received from each PRO and the distributions paid by SOCAN to each PRO in 2010.

TABLE NO. 1: ROYALTIES FROM AND TO INTERNATIONAL PROS (IN THOUSANDS OF DOLLARS)

Country		International Revenue From Affiliated Societies		International Distributions To Affiliated Societies	
		2010	2009	2010	2009
Argentina	SADAIC	205	206	26	26
Australia	APRA	1,317	1,245	1,142	843
Austria	AKM	281	385	48	73
Barbados	COSCAP	2	1	-	1
Belgium	SABAM	740	962	152	106
Bosnia Herzegovina	SQN	9	-	-	-
Brazil	Various	396	311	78	75
Bulgaria	MUSICAUTOR	14	-	2	2
Burkina Faso	BBDA	-	-	-	1
Chile	SCD	43	36	7	4
China	MCSC	-	5	2	38
Colombia	SAYCO	12	8	3	4
Costa Rica	ACAM	-	1	1	1
Croatia	HDS	30	34	1	5
Cuba	ACDAM	-	-	2	3
Czech Republic	OSA	109	113	5	8
Denmark	KODA	749	1,389	101	103
Estonia	EAU	11	20	1	3
Finland	TEOSTO	607	519	30	44
France	SACEM	6,183	5,911	2,595	2,714
Germany	GEMA	2,679	2,886	725	603
Greece	AEPI	171	181	11	6
Hong Kong	CASH	76	172	11	17
Hungary	ARTISJUS	161	223	13	7
Iceland	STEF	-	4	3	7
India	IPRS	-	-	-	33
Ireland	IMRO	194	263	102	91
Israel	ACUM	207	108	17	16
Italy	SIAE	1,650	2,086	357	352
Ivory Coast	BURIDA	-	-	-	-
Jamaica	JACAP	1	4	2	2
Japan	JASRAC	1,396	1,969	75	99
Kazakhstan	KAZAK	-	23	5	-
Korea	KOMCA	12	41	13	6
Latvia	AKKA/LAA	7	23	-	1
Lithuania	LATGA-A	15	45	1	-
Mali	BUMDA	-	-	-	11
Malaysia	MACP	35	33	-	3
Mauritius	MASA	-	-	-	-
Mexico	SACM	83	49	14	26
Netherlands	BUMA	1,148	1,332	129	141
Norway	TONO	293	307	33	32
Panama	SPAC	-	3	-	-
Peru	APDAYC	6	5	1	1
Philippines	FILSCAP	7	2	-	1
Poland	ZAIKS	397	562	17	19
Portugal	SPA	75	96	27	20
Romania	UCMR	182	125	19	28
Russia	RAO	118	74	6	14
Senegal	BSDA	1	-	5	6
Singapore	COMPASS	74	85	4	2
Slovak Republic	SOZA	36	50	1	3
Slovenia	SAZAS	16	23	3	1
South Africa	SAMRO	323	275	34	31
Spain	SGAE	1,115	1,094	152	203
Sweden	STIM	797	583	438	489
Switzerland	SUISA	501	525	88	98
Taiwan	Various	9	7	2	2
Thailand	MCT	4	3	-	0
Trinidad	COTT	4	4	-	4
Turkey	MESAM	-	-	6	3
United Kingdom	PRS	4,031	4,206	7,715	8,185
United States*	(See below)	15,513	18,498	48,871	56,637
Uruguay	AGADU	2	-	3	2
Venezuela	SACVEN	-	-	2	2
Vietnam	VCPMC	8	-	-	-
Yugoslavia	SOKOJ	16	8	6	1
					(40)
TOTAL		42,071	47,123	63,107	71,219
ASCAP*		7,780	10,974	25,589	29,500
BMI		7,706	7,481	21,377	27,883
SESAC		27	43	1,905	2,254
Total United States		15,513	18,498	48,871	59,637

Expenses

SOCAN's net administrative expenses (gross expenses offset by other income, which mainly consists of investment and rental income) increased to \$39.4-million in 2010 from \$36.4-million the previous year. Gross administrative expenses increased by \$3.5-million and other income increased by \$0.5-million, which resulted in a net increase of \$3.0-million in expenses. Net administrative expenses in 2010 represent 14.3 percent of total revenues (2009: 14.6 percent).

SOCAN's three core activities of collecting licence fees (Licensing), registering works and analyzing performances (Distribution Operations) and supporting members (Membership) account in total for \$20.8-million (2009: \$19.5-million), or just under half of our expenses.

Infrastructure-type costs, such as IT and Facilities & Administration, account for \$11.7-million (2009: \$11.0-million), or approximately a quarter, and other support services such as Finance, Legal, Marketing & Communications and Human Resources, account for most of the other quarter. The SOCAN Foundation was supported with \$1.5-million in 2010 up from \$1.4-million in 2009.

As shown in Table No. 2, SOCAN's 2010 gross expenses of \$45.5-million were 8.3 percent higher than in 2009. Listed below are explanations for some of the variances by cost category.

TABLE NO. 2 - GROSS EXPENSES BY EXPENSE TYPE 2010: \$45,538 VS 2009 \$42,059 (IN THOUSANDS OF DOLLARS)

	Gross Expenses		Variance 2010-2009	Incr/(Decr) from 2009 to 2010	2010 Expense Type as a percentage of Total Gross Expense	
	2010	2009				
	\$	\$	\$	%	%	
Membership	113	129	16	12.4%	0.2%	
Copyright Administration	419	781	362	46.4%	0.9%	
Tariff Administration	1,125	1,004	(121)	-12.1%	2.5%	
Data Processing	1,240	1,228	(12)	-1.0%	2.7%	
Communication, Marketing and Liaison	1,397	1,484	87	5.9%	3.1%	
Foundation	1,457	1,379	(78)	-5.7%	3.2%	
Stewardship	1,999	1,537	(462)	-30.1%	4.4%	
Office Occupancy	2,058	2,082	24	1.2%	4.5%	
Other	2,318	1,558	(760)	-48.8%	5.1%	
Office Operations	2,917	3,083	166	5.4%	6.4%	
Salaries and Benefits	30,495	27,794	(2,701)	-9.7%	67.0%	
Total Gross Expenses	45,538	42,059	(3,479)	-8.3%	100.0%	

Salaries & benefits

SOCAN's most significant expense lies in human resources, with an average of 323 full- and part-time employees in five offices across the country. In 2010, compensation increased by \$2.7-million from the previous year, mainly attributable to the increased cost of the annual pension expense.

Office operations

Expenses in this area relate to equipment purchases and leases, telephone, office supplies, subscriptions, postage, couriers, insurance, etc. Changes to the way SOCAN accounts for foreign exchange on distributions of US Dollars meant that there was a decrease of \$202,000 from 2009 on the month-end US Dollar bank account.

Other

These costs include travel, hotel and automobile expenses. There was a one-off provision in the amount of \$884,000, an estimate of interest on taxation that has yet to be finalized with the Canada Revenue Agency.

Stewardship

These costs include consulting, where there was an increase over 2009 in the amount of \$462,000. Consulting costs included special projects for the technology strategy and corporate documentation as well as tax consulting.

Tariff administration

This includes costs related to copyright reform initiatives and Copyright Board hearings to approve changes in licensing tariffs. The 2010 figure is \$121,000 higher than in the previous year, as a result of Internet hearings.

Copyright administration

Included here are costs relating to litigation work outsourced to external law firms, society dues and the recovery of legal costs. Expenses were lower than 2009 by \$362,000, mainly due to the recovery of legal costs.

SOCAN Distributions

SOCAN's total royalty distributions in 2010 amounted to \$194.8-million (2009: \$210.3-million). There were no special distributions for 2010 while in 2009 there were \$17.7-million. Excluding special distributions from the previous year, performing rights for 2010 totaled \$190.5-million (2009: \$189.6-million) and private-copying for 2010 totaled \$4.3-million (2009: \$2.9-million). Member advances are reflected in these numbers. Further details can be found in Table No. 3.

TABLE NO. 3	2010				2009			
	SOCAN Writers	SOCAN Publishers	International Affiliation	Total	SOCAN Writers	SOCAN Publishers	International Affiliation	Total
Radio and General (old pool)	-	-	-	-	880	1,815	2,413	5,108
Radio—Census (new pool)	5,368	12,697	15,063	33,128	5,546	13,236	15,899	34,681
Radio—Survey (new pool)	2,521	5,012	6,298	13,831	2,660	5,343	6,732	14,735
Radio—CBC (new pool)	2,231	1,742	2,412	6,385	2,310	1,659	2,397	6,366
Total Radio and General	10,120	19,451	23,773	53,344	11,396	22,053	27,441	60,890
Concerts	2,550	4,201	5,061	11,812	1,861	4,784	6,909	13,554
Cinema + Hotel, Motel Services	22	318	418	758	20	313	442	775
Pay Audio	328	662	1,027	2,017	311	608	968	1,887
Ringtones	57	508	739	1,304	302	3,890	5,282	9,474
	30,616	55,022	60,381	146,019	32,288	60,219	69,293	161,800
International affiliated societies	36,134	7,024	772	43,930	38,274	6,309	557	45,140
	66,750	62,046	61,153	189,949	70,562	66,528	69,850	206,940
Distributions in advance of normal payment date	270	250	-	520	146	272	-	418
	67,020	62,296	61,153	190,469	70,708	66,800	69,850	207,358
Private-copying	1,292	1,057	1,954	4,303	961	616	1,369	2,946
Total Distributions	68,312	63,353	63,107	194,772	71,669	67,416	71,219	210,304

Writer/Composer distributions

Table No. 4 summarizes the average distribution per writer/composer, (excluding all special distributions related to domestic revenues for 2010). This average is made up of two elements; the amount distributed to writers/composers divided by the number of writers/composers. The change in the average distribution per writer/composer will be different year-over-year if either of these elements changes.

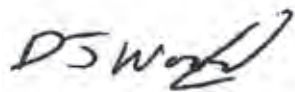
TABLE NO. 4	Amount of Distribution to Writers/Composers ('000s)			Number of Writers/Composers			Average Distribution per Writer/Composer		
	2010	2009	%	2010	2009	%	2010	2009	%
	9,229	8,948	3.1	10,397	9,803	6.1	888	913	(2.8)
Cable	8,310	9,450	(12.1)	7,392	6,899	7.1	1124	1370	(17.9)
Television	5,368	5,327	0.8	6,117	5,676	7.8	878	939	(6.5)
Radio: Census	2,521	2,561	(1.6)	16,229	15,287	6.2	155	168	(7.3)
Radio: Survey	2,231	2,310	(3.4)	9,467	9,191	3.0	236	251	(6.2)
Radio: CBC	2,550	1,861	37.0	6,896	5,613	22.9	370	332	11.5
Concerts	22	20	10.0	830	1,004	(17.3)	27	20	33.1
Cinema	328	311	5.5	8,154	7,856	3.8	40	40	1.6
Pay Audio	57	0		2,067	0		28	0	
Ringtones	36,134	37,309	(3.1)	14,419	12,750	13.1	2506	2926	(14.4)
International Affiliated Societies	1,292	961	34.4	8,057	7,418	8.6	160	130	23.8
Private Copying									

There are no 2009 comparatives for Ringtones as only arrears were distributed i.e. for 2003–2008 performances. 2010 is the first year that Ringtones were distributed as current on a quarterly basis.

Concerts, Cinema, Pay Audio and Private Copying had average distribution increases year-over-year, per writer/composer, of 11.5 percent, 33.1 percent, 1.6 percent and 23.8 percent respectively. With the exception of Cinema, there was a greater general increase in revenues than in the number of writer/composers receiving a distribution. For Cinema, there was an increase in revenues while there was a decrease in the number of writer/composers receiving a distribution.

Cable and Radio: Census had average distribution decreases year-over-year, per writer/composer, of 2.8 percent and 6.5 percent respectively. There was a greater general increase in the number of writer/composers receiving a distribution than the increase in revenues.

Television, Radio Survey, Radio CBC and International Royalties had average distribution decreases year-over-year of 17.9 percent, 7.3 percent, 6.2 percent and 14.4 percent, respectively. There was a decrease in revenues as well as an increase in the number of writers/composer receiving a distribution.



David Wood
Chief Financial Officer

Financial Statements of

Society of Composers, Authors and Music Publishers of Canada

Year ended December 31, 2010

Independent Auditors' Report

To the Members of the Society of Composers,
Authors and Music Publishers of Canada

Report on the Financial Statements

We have audited the accompanying financial statements of Society of Composers, Authors and Music Publishers of Canada, which comprise the statement of financial position as at December 31, 2010, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising 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 generally accepted accounting principles, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 our 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, we consider 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.

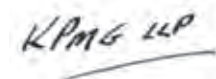
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Society of Composers, Authors and Music Publishers of Canada as at December 31, 2010, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

As required by the Canada Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.



Chartered Accountants, Licensed Public Accountants

March 22, 2011
Toronto, Canada

**Society of Composers, Authors and
Music Publishers of Canada**

**Statement of Financial Position
(In thousands of dollars)**

December 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Current assets:		
Cash	\$ 15,934	\$ 8,680
Accrued license fees	12,015	7,209
Other receivables and assets	4,020	2,417
Short-term investments (note 2)	105,747	92,278
Other securities (note 2)	104,111	94,126
	<u>241,827</u>	<u>204,710</u>
Capital assets (note 3)	8,426	9,217
Accrued benefit asset—pension (note 5)	3,156	3,035
	<u>\$ 253,409</u>	<u>\$ 216,962</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and other liabilities	\$ 10,552	\$ 6,769
Deferred revenue (note 4)	4,194	16,340
	<u>14,746</u>	<u>23,109</u>
Accrued benefit liability—other employee future benefits (note 5)	13,276	12,001
Royalties owing to music copyright owners (members and affiliated societies):		
From distributions allocated	7,020	6,106
From distribution fund (note 6)	217,636	176,384
	<u>224,656</u>	<u>182,490</u>
	252,678	217,600
Net assets:		
Net unrealized gain (loss) on investments	731	(638)
Commitments and contingencies (note 9)		
	<u>\$ 253,409</u>	<u>\$ 216,962</u>

See accompanying notes to financial statements.

On behalf of the Board:



Director



Director

Society of Composers, Authors and Music Publishers of Canada

Statement of Operations (In thousands of dollars)

Year ended December 31, 2010, with comparative figures for 2009

	2010			2009		
	Performing rights	Private copying	Total	Performing rights	Private copying	Total
Fees from Canadian licensees	\$ 229,541	\$ –	\$ 229,541	\$ 198,638	\$ –	\$ 198,638
Royalties received from international affiliated societies	42,071	–	42,071	47,123	–	47,123
Private copying royalties	–	3,772	3,772	–	3,258	3,258
	271,612	3,772	275,384	245,761	3,258	249,019
Expenses and other income:						
Administrative expenses	(45,411)	(127)	(45,538)	(41,931)	(128)	(42,059)
Investment and rental income (note 8)	6,178	–	6,178	5,631	–	5,631
	(39,233)	(127)	(39,360)	(36,300)	(128)	(36,428)
Total distributable income	232,379	3,645	236,024	209,461	3,130	212,591
Allocated to royalties owing to music copyright owners (note 6)	232,379	3,645	236,024	209,461	3,130	212,591
Unallocated income	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –

See accompanying notes to financial statements.

Society of Composers, Authors and Music Publishers of Canada

Statement of Changes in Net Assets (In thousands of dollars)

Year ended December 31, 2010, with comparative figures for 2009

	Net unrealized gain (loss) on investments	
	2010	2009
Net assets, beginning of year	\$ (638)	\$ (3,583)
Net change in unrealized gain on investments 2,945	1,369	
Net assets, end of year	\$ 731	\$ (638)

See accompanying notes to financial statements.

Society of Composers, Authors and Music Publishers of Canada

Statement of Cash Flows (In thousands of dollars)

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Increase in royalties owing to music copyright owners	\$ 42,166	\$ 2,394
Employer future benefit contributions	(2,129)	(1,958)
Items not involving cash:		
Amortization of capital assets	1,325	1,306
Employee future benefit expense	3,283	1,813
Change in non-cash operating working capital	(14,772)	12,012
	29,873	15,567
Investing activities:		
Purchase of capital assets	(534)	(392)
Purchase of short-term investments, net	(13,469)	(17,493)
Purchase of other securities, net	(8,616)	(5,087)
	(22,619)	(22,972)
Increase (decrease) in cash	7,254	(7,405)
Cash, beginning of year	8,680	16,085
Cash, end of year	\$ 15,934	\$ 8,680

See accompanying notes to financial statements.

The Society of Composers, Authors and Music Publishers of Canada ("SOCAN") is a not-for-profit organization, incorporated without share capital on March 16, 1990 under Part II of the Canada Corporations Act, which administers, for copyright-protected musical works, the right to perform in public and to communicate to the public by telecommunication in Canada. SOCAN collects licence fees on behalf of music copyright owners pursuant to tariffs proposed by SOCAN, and approved by a quasi-judicial federal tribunal, the Copyright Board. Licensees can and do object to proposed tariffs, and public hearings can be, and are, held at which SOCAN acts to support the rights of its members and international affiliates. SOCAN also has reciprocal contracts of affiliation with similar societies throughout the world, which provide for the exchange of copyright royalties. Total revenue, net of operating expenses, is distributed to members and to affiliated societies on account of their members pursuant to distribution rules approved by the Board of Directors. Amounts generally become distributable upon receipt of the related fees and royalties.

SOCAN is a non-profit organization under the Income Tax Act (Canada) and, accordingly, is exempt from income taxes, provided certain requirements of the Income Tax Act (Canada) are met.

The SOCAN Foundation – La Fondation SOCAN (the "Foundation") was incorporated by Letters Patent under the provisions of Part II of the Canada Corporations Act on May 13, 1976. The Foundation is a not-for-profit organization under the Income Tax Act (Canada), set up to promote and further the publication, recording, distribution and performance of music generally in Canada. SOCAN has the ability to control the Foundation by virtue of common membership in the Boards of Directors of the two organizations.

I. Significant accounting policies:

The following is a summary of the significant accounting policies followed by SOCAN, which are in accordance with Canadian generally accepted accounting principles:

(a) Financial instruments other than investments:

SOCAN designates its cash as held-for-trading, which is measured at fair value. Accrued licence fees and other receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and other liabilities are classified as other financial liabilities, which are measured at amortized cost.

In accordance with the Accounting Standards Board's decision to exempt not-for-profit organizations from the disclosure requirements with respect to financial instruments contained within The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3862, Financial Instruments—Disclosures, and Section 3863, Financial Instruments—Presentation, SOCAN has elected not to adopt these standards in its financial statements.

The carrying values of cash, accounts receivable and other assets, accounts payable and other liabilities and royalties owing to music copyright owners approximate fair values due to the immediate or short-term nature of these financial instruments.

(b) Investments:

Short-term investments have original maturities of less than one year. Other securities include fixed income investments and equities. Investments are classified as available-for-sale and stated at fair value. The change in the difference between the fair value and cost of investments at the beginning and end of each year is reflected in the statement of changes in net assets.

Fixed-income securities and equities are valued at year-end quoted market prices, where available. Where quoted market prices are not available, estimated fair values are calculated using comparable securities.

Transaction costs that are directly attributable to the acquisition of investments are not considered significant and are expensed when paid. Investment purchase and sale transactions are accounted for on the trade date.

Funds awaiting distribution are invested in marketable securities to provide a reasonable return while the distribution is being allocated.

(c) Investment income:

Investment income, which is recorded on an accrual basis, includes interest income, dividends and net gain (loss) on sale of securities.

(d) Recognition of fees and royalties:

Fees from Canadian licensees and royalties from international affiliated societies are recognized when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Private copying royalties are recognized when received.

(e) Capital assets:

Capital assets, other than land and artwork, are carried at cost less accumulated amortization. Land and artwork are carried at cost. Capital assets are amortized on a straight-line basis over their estimated useful lives. Annual amortization rates used are as follows:

Building and building improvements	3.7%
Leasehold improvements	Over term of lease
Furniture, fixtures and equipment	20.0%–33.3%

(f) Employee future benefits:

(i) Pension benefits:

SOCAN offers a pension plan with a defined benefit provision and a defined contribution provision, which between them cover substantially all employees of SOCAN. Employees joining SOCAN after January 1, 2009 are not eligible to join the defined benefit provision.

The defined benefit provision provides pensions based on length of service and final average earnings. The defined contribution provision provides benefits based on the amount of employee and employer contributions and the rate of return on such contributions.

The cost of the defined benefit provision is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected pension plan investment performance, salary escalation, retirement ages of employees and discount rate. The discount rate used to determine the accrued benefit obligation was determined by reference to market interest at the measurement date, December 31, on high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

For the purpose of calculating the expected return on the defined benefit provision of the pension plan assets, those assets are valued at fair value. The excess of the net actuarial gain (loss) over 10% of the lesser of the accrued benefit obligation and plan assets and the transitional asset are amortized over the average remaining service period of active employees of 14 years (2009—14 years).

The most recent actuarial valuation of the defined benefit provision for funding purposes was as of January 1, 2008 and the next required valuation will be as of January 1, 2011.

The cost of the defined contribution provision is based on a percentage of the employee's pensionable earnings.

SOCAN sponsors a supplementary non-registered plan ("SERP") for its executives providing benefits above the maximums prescribed under the Income Tax Act (Canada). The cost of the SERP is actuarially determined and is not funded.

(ii) Post-retirement benefits other than pensions:

SOCAN provides certain benefits to retired employees and their dependants. The benefits include medical services and dental. The cost of these benefits is actuarially determined using the projected benefit method prorated on service and management's best estimate of retirement ages of employees, expected health-care costs and discount rate. The post-retirement benefit plan is not funded. The average remaining service period of the active employees covered by the post-retirement benefit plan is 10.6 years (2009—10.6 years).

Employees joining SOCAN after January 1, 2009 are not eligible for post-retirement benefits other than pensions.

- (g) Investment in Canadian Music Rights Joint Venture Inc.:
SOCAN controls a wholly owned subsidiary, Canadian Music Rights Joint Venture Inc. ("CMRJV"). CMRJV was established to allow SOCAN to fund and participate in joint ventures. CMRJV is accounted for in SOCAN's financial statements using the equity method. The activities of CMRJV are not material to these financial statements.
- (h) Translation of foreign currencies:
Assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at exchange rates prevailing at the year-end date. Revenue and expenses have been translated using exchange rates prevailing on the transaction date. Gains and losses arising from these translation policies are included in the statement of operations.
- (i) Use of estimates:
The preparation of financial statements 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 revenue and expenses during the year. Actual results could differ from those estimates.

2. Short-term investments and other securities:

Short-term investments consist of bankers' acceptances, treasury bills and notes, bearing interest at rates ranging from 0.12% to 0.87% and maturing January 5, 2011 to April 11, 2011. They also include a bond fund, consisting of various short-term instruments.

Other securities are as follows:

	2010		2009	
	Amortized cost	Fair value	Amortized cost	Fair value
Government of Canada:				
Due after five years	\$ 5,110	\$ 5,167	\$ 4,774	\$ 4,785
Canadian provincial and public authorities and companies:				
Due in one year or less	1,869	1,796	—	—
Due after one through five years	24,939	24,845	24,989	25,031
Due after five years	22,904	23,229	26,891	27,273
Corporate:				
Due in one year or less	1,165	1,039	13	13
Due after one through five years	9,226	9,284	9,592	9,765
Due after five years	4,959	5,011	4,487	4,558
Mortgage-backed:				
Due after one through five years	4,486	4,444	2,150	2,171
Equities:				
Domestic	8,448	8,642	4,795	5,426
Foreign	19,644	20,654	16,377	15,104
	\$ 102,750	\$ 104,111	\$ 94,068	\$ 94,126

2. Short-term investments and other securities (continued):

Details of significant terms and conditions and exposures to interest rate risk on these investments are as follows:

	2010	2009
	Average effective rates	Average effective rates
Government of Canada	(0.32)%	0.13%
Canadian provincial and public authorities and companies	3.08 %	3.52%
Corporate	4.40 %	4.39%
Mortgage-backed	2.47 %	2.46%

Interest receivable for the above investments is calculated on a semi-annual basis.

3. Capital assets:

	2010		2009	
	Cost	Accumulated amortization	Net book value	Net book value
Land	\$ 3,073	\$ —	\$ 3,073	\$ 3,073
Building and building improvements	9,656	5,809	3,847	4,107
Leasehold improvements	131	82	49	82
Furniture, fixtures and equipment	7,000	5,639	1,361	1,859
Artwork	96	—	96	96
	\$ 19,956	\$ 11,530	\$ 8,426	\$ 9,217

Amortization charges included in administrative expenses amounted to \$1,325 (2009—\$1,306). Disposals include \$86 of fully depreciated assets.

4. Deferred revenue:

	2010	2009
Tariffs under appeal:		
Internet (Tariff 22A)	\$ —	\$ 11,144
License fees received in advance	4,194	5,196
	\$ 4,194	\$ 16,340

5. Employee future benefits:

(a) Information about SOCAN's employee benefit plans (excluding the defined contribution portion of the pension plan) as at December 31, 2010 and 2009, in aggregate, is as follows:

	Pension plan		SERP		Retiree medical benefit plan	
	2010	2009	2010	2009	2010	2009
Accrued benefit obligations	\$ 43,168	\$ 37,895	\$ 10,232	\$ 9,398	\$ 4,295	\$ 4,078
Fair value of plans' assets	38,579	34,750	—	—	—	—
Funded deficit	\$ (4,589)	\$ (3,145)	\$ (10,232)	\$ (9,398)	\$ (4,295)	\$ (4,078)

5. Employee future benefits (continued):

Pension plan assets consist of:

	Pension plan	
	2010	2009
Equity securities	54.2%	51.4%
Debt securities	36.1%	36.7%
Other	9.7%	11.9%
	100.0%	100.0%

Continuity of the accrued benefit liability (asset) is as follows:

2010	Pension plan	SERP	Retiree medical benefit plan	Total
Balance, beginning of year	\$ (3,035)	\$ 8,252	\$ 3,749	\$ 8,966
Benefit expenses	1,543	1,257	483	3,283
Employer contributions	(1,664)	(345)	(120)	(2,129)
Balance, end of year	\$ (3,156)	\$ 9,164	\$ 4,112	\$ 10,120

2009	Pension plan	SERP	Retiree medical benefit plan	Total
Balance, beginning of year	\$ (1,883)	\$ 7,560	\$ 3,434	\$ 9,111
Benefit expenses	530	860	423	1,813
Employer contributions	(1,682)	(168)	(108)	(1,958)
Balance, end of year	\$ (3,035)	\$ 8,252	\$ 3,749	\$ 8,966

The significant actuarial assumptions adopted in measuring the accrued benefit obligations as of December 31 are as follows:

	Pension plan and SERP		Retiree medical benefit plan	
	2010	2009	2010	2009
Accrued benefit obligation:				
Discount rate	5.00%	5.25%	5.00%	5.25%
Rate of compensation increase	3.50%	3.50%	—	—
Benefit costs:				
Discount rate	5.00%	5.25%	5.00%	5.25%
Expected long-term rate of return on plan assets	6.25%	6.25%	—	—
Rate of compensation increase	3.50%	3.50%	—	—

Other information about the employee benefit plans is as follows:

	Pension plan		Retiree medical			
	2010	2009	SERP		benefit plan	
	2010	2009	2010	2009	2010	2009
Employer contributions	\$ 1,664	\$ 1,682	\$ 345	\$ 168	\$ 120	\$ 108
Employees' contributions	680	692	—	—	—	—
Benefits paid	1,198	926	345	168	120	108

(b) The contributions paid and expensed by SOCAN under the defined contribution portion of the pension plan for the year amounted to \$47 (2009—\$23).

6. Royalties owing to music copyright owners:

The availability of funds for distribution is dependent upon the realization of assets at not less than their carrying values in the financial statements.

2010	Performing rights	Private copying	Total
Balance, beginning of year	\$ 174,436	\$ 1,948	\$ 176,384
Distributable income	232,379	3,645	236,024
Distributions	(190,469)	(4,303)	(194,772)
Balance, end of year	\$ 216,346	\$ 1,290	\$ 217,636

2009	Performing rights	Private copying	Total
Balance, beginning of year	\$ 172,333	\$ 1,764	\$ 174,097
Distributable income	209,461	3,130	212,591
Distributions	(207,358)	(2,946)	(210,304)
Balance, end of year	\$ 174,436	\$ 1,948	\$ 176,384

7. The SOCAN Foundation:

Included in administrative expenses is \$1,457 (2009—\$1,379) in funding provided to the Foundation. Included in other assets is \$395 (2009—\$298) owing from the Foundation.

A summary of the financial information for the Foundation for the year ended December 31 is as follows:

	2010	2009
Total assets	\$ 5,944	\$ 5,312
Total liabilities	1,178	748
Net assets	\$ 4,766	\$ 4,564
Revenue	\$ 2,665	\$ 2,582
Expenses (2,406)	(2,561)	
Unrealized gains on investments	98	201
Change in net assets	\$ 202	\$ 377

Commencing in fiscal 2002, the Foundation began to administer the Creators' Assistance Program on behalf of the Department of Canadian Heritage. The results of this program are included in the above amounts.

8. Investment and rental income:

	2010	2009
Interest income	\$ 4,377	\$ 4,352
Dividend income	292	538
Rental and miscellaneous income	946	1,026
Net realized gain on sale of investments	1,039	176
Brokerage and investment consulting fees	(476)	(461)
	<u>\$ 6,178</u>	<u>\$ 5,631</u>

9. Commitments and contingencies:

(a) SOCAN has various operating lease commitments for branch office premises, vehicles and office equipment. The future minimum lease payments, inclusive of maintenance costs and realty taxes, for years subsequent to December 31, 2010, are as follows:

2011	\$ 570
2012	465
2013	264
2014	243
2015	20
	<u>\$ 1,562</u>

(b) SOCAN is party to legal actions arising in the normal course of operations. While it is not feasible to predict the outcome of these actions, it is the opinion of management that the resolution of these matters will not have a material adverse effect on operations.

10. Risk management:

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to interest rate, market and foreign currency risks. SOCAN has formal policies and procedures that establish target asset mix. SOCAN's policies also require diversification of investments within categories, and set limits on exposure to individual investments.

(a) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect the value of fixed income securities held by SOCAN. SOCAN manages this risk by holding primarily debt issued by the Government of Canada and corporate companies and by staggering the terms of the securities held.

(b) Market risk:

Market risk arises as a result of trading in equity securities and fixed income securities. Fluctuations in the market expose SOCAN to a risk of loss. SOCAN mitigates this risk through controls to monitor and limit concentration levels.

(c) Foreign currency risk:

Foreign currency risk arises from gains and losses due to fluctuations in foreign currency exchange rates on SOCAN's foreign equity securities.

11. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

SOCAN Board of Directors 2010



Rosaire
Archambault



Geneviève
Côté



Victor
Davies



Jodie
Ferneyhough



Gary
Furniss



Edmund
Glinert



Bill
Henderson



Craig
Horton



Michael
McCarty



Stan
Meissner



Ben
Mink



Glenn
Morley



Marc
Ouellette



Pierre-Daniel
Rheault



Earl
Rosen



Carol
Ryan



Gilles
Valiquette



Jim
Vallance

SOCAN Executive Team 2011

Eric Baptiste
Chief Executive Officer

Jeff King
Chief Operating Officer

David Wood
Chief Financial Officer

Randy Wark
Vice President, Human
Resources & Chief
Administrative Officer

Jennifer Brown
Vice President, Licensing

Betsy Chaly
Director, Marketing &
Communications

Dan Greenwood
Vice President, Corporate
Planning and Business Change

France Lafleur
Vice President, Membership and
General Manager, Québec &
Atlantic Division

Michael Lewin
Vice President, Distribution
Operations

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Janice Scott
Vice President, Information
Technology

C. Paul Spurgeon
Vice President, Legal Services &
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