

General Insurance Statistical Agency

Financial Statements

March 31, 2009

September 23, 2009

Auditors' Report

**To the Members of
General Insurance Statistical Agency**

We have audited the statement of financial position of **General Insurance Statistical Agency (GISA)** as at March 31, 2009 and the statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of GISA's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by GISA's management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of GISA as at March 31, 2009 and the results of its operations, its net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

General Insurance Statistical Agency


Statement of Financial Position


As at March 31, 2009

	2009 \$	2008 \$
Assets		
Current assets		
Cash	854,255	2,794,226
Interest receivable	72,050	-
Prepaid insurance	7,054	7,425
Accounts receivable due from participating insurers	220,173	194,870
Accounts receivable due from members (note 5)	42,081	131,463
GST receivable (note 6)	1,342,707	1,319,126
Short-term investments (note 7)	4,373,000	-
	<u>6,911,320</u>	<u>4,447,110</u>
Capital assets		
Custom developed application software	9,360,681	7,195,527
Less: Accumulated amortization	<u>3,719,854</u>	<u>599,627</u>
	5,640,827	6,595,900
	<u>12,552,147</u>	<u>11,043,010</u>
Liabilities		
Current liabilities		
Accounts payable	38,442	56,806
Due to secretariat service provider (note 8)	38,937	213,385
Due to statistical plan service provider (note 8)	<u>1,831,962</u>	<u>2,327,990</u>
	1,909,341	2,598,181
Long-term liability due to related party (note 8)	5,001	3,231
Deferred assessment revenue for IT Renewal Program	<u>7,960,637</u>	<u>7,071,753</u>
	9,874,979	9,673,165
Net Assets	<u>2,677,168</u>	<u>1,369,845</u>
	<u>12,552,147</u>	<u>11,043,010</u>

Commitments (note 9)

Approved by the Board of Directors

 Chair

 Director

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

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Statement of Operations and Net Assets

For the year ended March 31, 2009

	2009	2008
	\$	\$
Revenue		
Assessments for Mandated Statistical Plan	10,186,339	9,017,065
Assessment revenue for IT Renewal Program	3,120,227	599,627
Deficiency fees	793,278	611,539
Bad debts recovery	8,230	-
Investment income	117,846	214,633
	<hr/>	<hr/>
	14,225,920	10,442,864
Expenses		
Production of Mandated Statistical Plan (note 8)	9,104,606	9,230,869
Amortization	3,120,227	599,627
Salaries and benefits	260,025	255,251
Travel and communication	4,268	4,585
Office and utilities	60,482	67,955
Board and committees	44,522	34,030
Professional services	316,551	177,863
Other charges	7,916	28,497
	<hr/>	<hr/>
	12,918,597	10,398,677
Excess of revenue over expenses for the year	1,307,323	44,187
Net assets - Beginning of year	<hr/>	<hr/>
	1,369,845	1,325,658
Net assets - End of year	<hr/>	<hr/>
	2,677,168	1,369,845

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

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Statement of Cash Flows

For the year ended March 31, 2009

	2009 \$	2008 \$
Cash provided by (used in)		
Operating activities		
Cash receipts from participating insurers for assessments and deficiency fees	14,971,655	12,540,801
Cash receipts from members for GST	149,247	-
Interest received	34,926	220,225
GST refund received	529,758	-
GST paid	(36,300)	-
Cash paid to statistical plan service provider for contracted services	(9,903,852)	(10,233,182)
Cash paid to secretariat service provider for services and expense reimbursement	(558,569)	(331,817)
Cash paid to other suppliers	(353,973)	(172,728)
	<u>4,832,892</u>	<u>2,023,299</u>
Investing activities		
Redemption of short-term investment	-	5,099,782
Purchase of short-term investments	(4,373,000)	-
Purchase of capital assets from statistical plan service provider	(2,399,863)	(4,378,048)
	<u>(6,772,863)</u>	<u>721,734</u>
Net change in cash during the year	(1,939,971)	2,745,033
Cash - Beginning of year	<u>2,794,226</u>	<u>49,193</u>
Cash - End of year	<u>854,255</u>	<u>2,794,226</u>

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

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1 Purpose of General Insurance Statistical Agency (GISA)

GISA is an interjurisdictional association, membership of which is limited to the insurance regulators (members) of the provinces and territories of Canada, whose objectives include:

- a) to act as a statistical agent on behalf of the participating members in jurisdictions in Canada, where so designated;
- b) to promote timeliness, integrity, reliability and credibility of statistical data generated by and on behalf of the members;
- c) to coordinate the statistical data requirements of the members;
- d) to assist the participating members in the enforcement of insurers' compliance with data filing and requirements;
- e) to promote the coordination, harmonization and efficiency of data filing requirements for the members; and
- f) to discuss and take action on issues of common interest to the members.

GISA was incorporated by letters patent under the *Canada Corporations Act* on June 28, 2005.

GISA is a not-for-profit organization, as described in the *Income Tax Act* (Canada) and, therefore, no income taxes are provided in these financial statements.

2 Agreement with statistical plan service provider

Effective April 1, 2006, GISA entered into a three-year agreement with a statistical plan service provider. The agreement continues on an annual basis, unless terminated under the terms of the agreement. GISA is in the process of negotiating an extension of this agreement. The agreement retains the statistical plan service provider to provide collection, processing and analysis of industry data, certain financial services, including billing services and budget preparation, and the development of approved capital projects, as required by GISA.

3 Agreement with secretariat service provider

Effective April 1, 2006, GISA entered into a one-year agreement with a secretariat service provider. This agreement was extended to March 31, 2010.

Services provided by the secretariat service provider include the establishment and maintenance of the GISA office, financial administration and human resources administration in consultation with the GISA Chair. Certain employees of the Ontario Public Service (OPS) are assigned to GISA. The secretariat service provider bills GISA on a quarterly basis.

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4 Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, which require that management makes estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual amounts could differ from these estimates. The significant accounting policies are as follows:

Revenue recognition

The participating insurers are assessed annually, billed quarterly in advance, for their portion of the estimated costs associated with the production of the statistical plans and the costs for the development of capital assets, as required by GISA. The programs herein are referred to as the Mandated Statistical Plan and the Information Technology (IT) Renewal Program.

Assessment revenue for the production of the Mandated Statistical Plan is billed to the participating insurers based on the approved annual budget. The budget is established to recover GISA's expected operating costs for the year. Revenue is recognized in income in the year it is billed.

Deficiency fees, billed monthly, are for delays or missing statistical data required to be filed by the participating insurers. These fees are recognized in income as billed.

Assessment revenue for the IT Renewal Program represents amounts billed to participating insurers for the development of custom developed application software. Assessment revenue for the IT Renewal Program is deferred and recognized over the same period as the amortization of the related capital assets.

Assessment revenue in excess of actual expenses incurred by GISA in a particular year, including any deficiency fees and investment income, will be applied to reduce annual assessments for the participating insurers in the following year.

Interest income from short-term investments is recorded as earned.

Capital assets

Custom developed application software is recorded at cost, less accumulated amortization. Amortization is calculated on a straight-line basis over three years, the estimated useful life of the asset. Effective January 7, 2008, phase one of the IT Renewal Program was implemented.

Financial instruments

Effective April 1, 2008, GISA adopted the new disclosure standards issued by The Canadian Institute of Chartered Accountants (CICA) related to financial instruments: CICA Section 3862, Financial Instruments - Disclosures, and Section 3863, Financial Instruments - Presentation. These new standards were adopted on a prospective basis and their adoption did not result in any adjustment to balances as at April 1, 2008. GISA

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follows the accounting standards issued by the CICA, pertaining to financial instruments under CICA Section 3855, Financial Instruments - Recognition and Measurement.

Under these standards, financial assets and financial liabilities are initially recognized at fair values, and their subsequent measurement is dependent on their classification, as described below. The classification is determined based on the objectives for which these financial instruments were acquired or issued, their characteristics and GISA's designation of such instruments. GISA's classification with respect to financial instruments is as follows:

- Cash and short-term investments are classified as held-for-trading, and are recorded at fair values.
- Receivables are classified as receivables, and are recorded at face value, which approximates fair value, given their short-term maturities.
- Accounts payable and the long-term payable due to related party are classified as financial liabilities, and are recorded at face values, which approximate fair values, given their short-term maturities.

The primary risks that GISA's financial instruments are exposed to are credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument may fail to discharge an obligation or commitment that it has entered into. GISA is exposed to credit risk relating to the collection of receivables, cash, short-term investments, interest receivable and GST receivable in the total amount of \$6,904,266, and it is considered to be low.

Liquidity risk

Liquidity risk is the risk that an entity may encounter difficulties in meeting cash flow commitments associated with financial instruments. To manage cash flow needs, GISA maintains a portion of assets as short-term investments in cashable guaranteed investment certificates (GICs). GISA believes it has low liquidity risk, given the nature of its accounts payable, cash and short-term investments positions. GISA manages its liquidity risk through a regular budgetary process, timely billings to insurers and regular review of collections and budgets.

Market risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of GISA. Short-term financial instruments (receivables, short-term investments and accounts payable) are not subject to significant market risk. GISA's market risk is considered to be low. GISA manages its market risk by investing assets in low-risk, liquid securities with short-term maturities.

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Comparative balances

Certain comparative balances have been reclassified to conform to the current year's financial statement presentation.

5 Accounts receivable due from members

Accounts receivable due from members consist of GST charged to the members on the agency services that are outstanding as at year-end.

6 GST receivable from CRA

In fiscal 2007, the board of directors (the Board) applied to the Canada Revenue Agency (CRA) for a tax ruling on GISA's GST status. GISA claimed it was acting as an agent on behalf of the members (participating insurance regulators) and was, therefore, exempt from GST. As a result, GST was not collected or remitted on the revenue and GST had only been paid on certain expenses.

In fiscal 2008, the CRA ruled that GISA is acting as an agent for the members for purposes of gathering, compiling and reporting of statistical data relating to the insurance industry. GISA is required to collect and remit GST/HST on the agency services provided to the participating jurisdictions, except where such jurisdictions are not required to pay GST/HST by virtue of Section 122 of the *Excise Tax Act* and there are reciprocal taxation agreements signed between participating jurisdictions and the federal government. GISA is required to pay GST on all expenses incurred and is entitled to claim input tax credits on any GST paid.

In fiscal 2008, subsequent to this ruling, management initiated retroactive billings and collections related to GST and paid GST retroactively on all expenses. Since then, GISA has been filing GST returns on a monthly basis. The net amount receivable of \$1,342,707 (2008 - \$1,319,126) is included on the statement of financial position as GST receivable and includes prepaid interest of \$2,721 (2008 - \$nil).

Subsequent to year-end, the net receivable of \$1,342,707 for retroactive filings and for the months of February 2009 and March 2009 has been received by GISA.

7 Short-term investments

The short-term investments consist of cashable GICs. As at March 31, 2009, GISA held four cashable GICs with one-year terms in the total amount of \$4,373,000 (2008 - \$nil). The GICs have interest rates ranging from 1.00% to 3.25%.

8 Related party transactions

Transactions with statistical plan service provider

During the year, the statistical plan service provider billed GISA \$9,104,606 (2008 - \$9,230,869) for the provision of data collection, compilation and reporting services and \$2,165,154 (2008 - \$3,934,293) for the

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development of the IT Renewal Program. All transactions with the statistical plan service provider were accounted for at the exchange amounts and were transacted at regular market terms.

Transactions with secretariat service provider

The chief executive officer and superintendent of the secretariat service provider is the Chair of GISA.

During the year, the secretariat service provider incurred expenditures on behalf of GISA for salaries and benefits, direct operating expenses and certain indirect expenses, including office rent, lighting and heating, IT and website support, in the amount of \$359,556 (2008 - \$439,413). All transactions with the secretariat service provider were accounted for at the exchange amounts and were transacted at regular market terms.

Employees assigned to GISA are entitled to benefits that have been negotiated centrally for OPS employees. The future liability for benefits earned by these employees is included in the estimated liability for all provincial employees and is recognized in the Province of Ontario's consolidated financial statements. Certain of these benefits are accounted for by GISA as follows:

Defined benefit pension plans

The Province of Ontario provides defined pension benefits to its classified full-time employees through participation in the Public Service Pension Fund and the Ontario Public Service Employees' Union Pension Fund (the pension plans). GISA is unable to identify its share of the underlying assets and liabilities of these pension plans; therefore, no pension asset or liability has been recorded in these financial statements and defined contribution accounting has been applied. GISA's required contributions to the pension plans for the year ended March 31, 2009 were \$11,595 (2008 - \$8,245) and are included in salaries and benefits expenses.

Termination and other benefits

The Province of Ontario provides termination benefits to its OPS employees, subject to service and eligibility requirements, as defined in the employee contracts.

Liabilities are recorded by the Province of Ontario, based on the actuarial present value of benefits earned to date. GISA records a proportionate share of termination benefits, based on each employee's years of service with GISA. The costs for the year for termination benefits amounted to \$1,770 (2008 - \$1,708) and have been recorded as a long-term liability due to related party and as salaries and benefits expenses.

The amount outstanding of \$11,987 (2008 - \$10,718) for any unused vacation entitlements earned by employees are recorded in due to secretariat service provider.

9 Commitments

The Board approved the IT Renewal Program in 2007 to be completed by the statistical plan service provider. The IT Renewal Program is a five-year project developed by the statistical plan service provider to replace core collection, processing and analytical systems for automobile insurance data. The project, with a total budget of \$23,269,000, includes: infrastructure overhead, servers and storage infrastructure; custom developed

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applications; and licensed applications. Costs are shared on a proportional basis among GISA (\$16,400,000), the statistical plan service provider and other parties.

GISA commits annually to the program, as provided in the agreement with the statistical plan service provider. A summary of GISA's share of the estimated project cost over the remaining two years is as follows:

Fiscal year	GISA's share of estimated project cost \$
2009-2010	3,937,000
2010-2011	2,968,000

10 Capital management

GISA has been designated by the participating members to provide services as their statistical agent. To comply with its designated statutory obligations, GISA assesses the insurance industry for costs related to the delivery of statistical services on a chargeback or full cost recovery basis. For the purposes of CICA Section 1535, Capital Disclosures, of the CICA guidelines, capital is defined as the net assets balance at the end of a fiscal year. On approval by GISA's Board, unexpended net assets at the end of any fiscal year are applied to reduce industry assessments for the following fiscal year.