

# **General Insurance Statistical Agency**

Financial Statements

**March 31, 2011**

September 21, 2011

## **Independent Auditor's Report**

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

We have audited the accompanying financial statements of General Insurance Statistical Agency (GISA), which comprise the statement of financial position as at March 31, 2011 and the statements of operations and net assets and cash flows for the year then ended, and the related notes, which comprise 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.

#### **Auditor's 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 GISA as at March 31, 2011 and the results of its operations 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

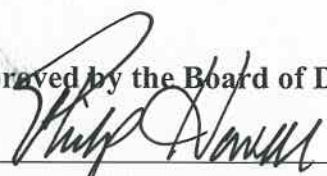
## Statement of Financial Position

As at March 31, 2011

	2011 \$	2010 \$ (Restated - note 4)
<b>Assets</b>		
<b>Current assets</b>		
Cash	115,628	45,791
Interest receivable	7,308	17,142
Prepaid insurance	5,952	7,054
Accounts receivable due from participating insurers	152,892	53,246
Accounts receivable due from members (note 6)	846,541	776
GST/HST receivable	254,792	124,703
Short-term investments (note 7)	2,591,928	5,295,280
	<u>3,975,041</u>	<u>5,543,992</u>
<b>Intangible assets</b>		
Custom developed application software	14,692,168	12,531,178
Less: Accumulated amortization	<u>12,194,681</u>	<u>7,896,916</u>
	2,497,487	4,634,262
	<u>6,472,528</u>	<u>10,178,254</u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities</b>		
Accounts payable	64,754	47,056
Due to secretariat service provider (note 8)	116,180	43,495
Due to statistical plan service provider (note 8)	<u>1,721,925</u>	<u>3,445,521</u>
	1,902,859	3,536,072
<b>Long-term liability due to related party (note 8)</b>	8,945	6,796
<b>Deferred assessment revenue for Technology Renewal Program</b>	<u>3,327,285</u>	<u>5,388,756</u>
	5,239,089	8,931,624
<b>Net Assets</b>	<u>1,233,439</u>	<u>1,246,630</u>
	<u>6,472,528</u>	<u>10,178,254</u>

**Commitments** (note 9)

Approved by the Board of Directors

  
Chair

  
Director

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

# General Insurance Statistical Agency

Statement of Operations and Net Assets

For the year ended March 31, 2011

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	2011 \$	2010 \$ (Restated - note 4)
<b>Revenue</b>		
Assessments for Mandated Statistical Plan	9,036,075	7,360,941
Assessment revenue for Technology Renewal Program	4,297,765	4,177,062
Deficiency fees	471,456	524,902
Investment income	21,812	136,202
	<hr/> 13,827,108	<hr/> 12,199,107
<b>Expenses</b>		
Production of Mandated Statistical Plan (note 8)	8,853,980	8,958,625
Amortization	4,297,765	4,177,062
Salaries and benefits	306,454	266,435
Travel and communication	596	3,261
Office and utilities	61,601	58,473
Board and committees	43,685	39,616
Professional services	274,280	113,909
Other charges	1,938	3,093
	<hr/> 13,840,299	<hr/> 13,620,474
<b>Deficiency of revenue over expenses for the year</b>	(13,191)	(1,421,367)
<b>Net assets - Beginning of year</b>	<hr/> 1,246,630	<hr/> 2,667,997
<b>Net assets - End of year</b>	<hr/> <hr/> 1,233,439	<hr/> <hr/> 1,246,630

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

# General Insurance Statistical Agency

## Statement of Cash Flows

For the year ended March 31, 2011

	2011	2010
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Cash receipts from participating insurers for assessments and deficiency fees	11,644,180	9,657,951
Cash receipts from members for GST/HST	62,177	78,059
Interest received	31,646	122,280
GST/HST refund received	868,604	1,855,562
GST/HST paid	(753,000)	-
Cash paid to statistical plan service provider for contracted services	(10,707,712)	(8,471,095)
Cash paid to secretariat service provider for services and expense reimbursement	(333,459)	(371,911)
Cash paid to other suppliers	(321,427)	(129,440)
	<u>491,009</u>	<u>2,741,406</u>
<b>Investing activities</b>		
Redemption of short-term investments	6,422,508	5,573,000
Purchase of short-term investments	(3,719,154)	(6,495,280)
Purchase of intangible assets from statistical plan service provider	(3,124,526)	(2,627,590)
	<u>(421,172)</u>	<u>(3,549,870)</u>
<b>Net change in cash during the year</b>	69,837	(808,464)
<b>Cash - Beginning of year</b>	45,791	854,255
<b>Cash - End of year</b>	<u>115,628</u>	<u>45,791</u>

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

# General Insurance Statistical Agency

Notes to Financial Statements

March 31, 2011

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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 interests 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

GISA has an agreement with a statistical plan service provider for the provision of services expiring on March 31, 2012 and, after that, it continues on an annual basis, unless terminated under the terms of the 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

GISA has an agreement with a secretariat service provider for services including the provision of 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 agreement expires on March 31, 2013. The secretariat service provider bills GISA on a quarterly basis.

# General Insurance Statistical Agency

Notes to Financial Statements

March 31, 2011

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## 4 Change in accounting policy

The secretariat service provider has changed its accounting policy to include the obligations related to unused management compensation option (MCO) credits, following a change in policy by the Province of Ontario about MCO credits for OPS employees. MCO credits are an employee benefit that certain eligible OPS employees earn as services are performed. In previous years, the future liability for benefits earned by employees only included costs for unused vacation and severance entitlement and did not include the unused MCO credits. GISA management believes this policy provides reliable and more relevant information because the employee compensation costs are properly reflected in the entity where the services are performed. This change in accounting policy has been accounted for retrospectively and the comparative statements for 2010 have been restated as follows:

	2010 \$	Impact of change in accounting policy \$	2010 restated \$
Due to secretariat service provider	(31,981)	(11,514)	(43,495)
Salaries and benefits	264,092	2,343	266,435
Net assets - Beginning of year	(2,677,168)	9,171	(2,667,997)
Net assets - End of year	(1,258,144)	11,514	(1,246,630)

## 5 Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles in accordance with Part V of the pre-changeover accounting standards of The Canadian Institute of Chartered Accountants (CICA) Handbook, which require that management make 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 intangible assets, as required by GISA. The programs herein are referred to as the Mandated Statistical Plan and the Technology Renewal Program (TRP).

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 late and inaccurate submissions that create processing delays and compromise the timeliness and value of the mandated data required to be filed by the participating insurers. The fees are recognized in income as billed.

# General Insurance Statistical Agency

Notes to Financial Statements

March 31, 2011

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Assessment revenue for the TRP represents amounts billed to participating insurers for the development of custom developed application software. Assessment revenue for the TRP is deferred and recognized over the same period as the amortization of the related intangible 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 for short-term investments is recorded as earned.

## **Intangible 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 I of the TRP was implemented and all of the Phase II projects were completed by December 2010. The final phase commenced in June 2010 and is scheduled to be completed in 2015.

## **Financial instruments**

GISA follows the accounting standards issued by the CICA related to financial instruments.

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 value.
- Receivables are classified as receivables and are recorded at face value, which approximates fair value, given their short-term maturities.
- Accounts payable and due to related parties are classified as financial liabilities and are recorded at face value, which approximates fair value, given their short-term maturities.

The main 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/HST receivable in the total amount of \$3,969,089 (2010 - \$5,536,938). The credit risk exposure is considered to be low.

# General Insurance Statistical Agency

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## 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 its financial 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 investment 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.

## Fair value measurements

GISA has disclosed the fair value of its financial instruments, in accordance with CICA Handbook Section 3862, Financial Instruments - Disclosures, according to the three-level hierarchy that prioritizes the inputs to fair value measurement.

- Level 1 Unadjusted quoted prices in active markets for identical financial assets or financial liabilities
- Level 2 Inputs that are observable for the financial assets or financial liabilities, either directly or indirectly
- Level 3 Inputs for financial assets or financial liabilities that are not based on observable market data

## Comparative balances

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

## 6 Accounts receivable due from members

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

## 7 Short-term investments

The short-term investments consist of cashable GICs. As at March 31, 2011, GISA held two cashable GICs with one-year terms in the total amount of \$2,591,928 (2010 - \$5,295,280). The GICs' interest rates are 1.00%. GICs are classified as level 2, as previously defined in note 5. These instruments are stated at cost, which, when combined with accrued interest income, approximates fair value.

# General Insurance Statistical Agency

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## 8 Related party transactions

### Transactions with statistical plan service provider

During the year, the statistical plan service provider billed GISA \$8,853,980 (2010 - \$8,958,625) for the provision of data collection, compilation and reporting services and \$2,160,990 (2010 - \$3,170,497) for the development of the TRP. 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

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 \$369,608 (2010 - \$346,587). All transactions with the secretariat service provider were accounted for at the exchange amounts and were 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 OPS 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, 2011 were \$16,415 (2010 - \$12,416) 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 \$2,149 (2010 - \$1,795) and have been recorded as a long-term liability due to related party and as salaries and benefits expenses.

The amount outstanding of \$13,610 (2010 - \$12,646) for any unused vacation entitlements earned by employees and \$13,857 (2010 - \$11,514) for any unused MCO credits earned by employees are recorded in due to secretariat service provider.

# General Insurance Statistical Agency

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## 9 Commitments

The Board of Directors approved the TRP in February 2006 to be completed by the statistical plan service provider. The TRP 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 TRP includes: infrastructure overhead, servers and storage infrastructure; custom developed applications; and licensed applications. Costs are shared on a proportional basis among GISA, the statistical plan service provider and other parties.

The completed final five-year TRP Phases I and II cost was \$14,515,239 for GISA (originally budgeted at \$16,376,000) and \$21,310,836 overall (originally budgeted at \$23,269,000).

In June 2010, the GISA Board of Directors approved the statistical plan service provider's proposal for the final phase of the TRP to upgrade all of the remaining GISA-related systems from the legacy environment. TRP Final Phase, a multi-year project, commenced in June 2010 and is scheduled to be completed in 2015. The total cost to GISA is estimated to be \$4,518,675, based on current project specifications. As individual project requirements are finalized, the cost of each project will be brought to the GISA Board of Directors for approval before implementation. GISA's estimated project costs relating to the approved TRP Final Phase for the fiscal 2010-2011 year were \$321,479.

A summary of GISA's share of the estimated project cost over the remaining years is as follows:

<b>Fiscal year</b>	<b>GISA's share of project cost \$</b>
2011-2012	1,897,889
2012-2013	1,347,907
2013-2014	567,483
2014-2015	383,917

## 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 Handbook Section 1535, Capital Disclosures, capital is defined as the net assets balance at the end of a fiscal year. On approval by GISA's Board of Directors, unexpended net assets at the end of any fiscal year are applied to reduce industry assessments for the following fiscal year.