

General Insurance Statistical Agency

Financial Statements
March 31, 2008

September 23, 2008

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, 2008 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 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, 2008 and the results of its operations and 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, 2008

	2008 \$	2007 \$
Assets		
Current assets		
Cash (note 8)	2,794,226	49,193
Interest receivable	-	5,592
Prepaid insurance	7,425	7,425
Accounts receivable due from participating insurers	194,870	85,794
Accounts receivable due from members (note 6)	131,463	-
GST receivable (note 7)	1,319,126	-
Short-term investment (note 8)	-	5,099,782
	<u>4,447,110</u>	<u>5,247,786</u>
Capital assets		
Custom developed application software	7,195,527	3,104,615
Less: Accumulated amortization	599,627	-
	<u>6,595,900</u>	<u>3,104,615</u>
	<u>11,043,010</u>	<u>8,352,401</u>
Liabilities		
Current liabilities		
Accounts payable	56,806	28,385
Due to secretariat service provider (note 9)	213,385	129,012
Due to statistical plan service provider (note 9)	2,327,990	2,225,946
	<u>2,598,181</u>	<u>2,383,343</u>
Long-term liability due to related party (note 9)	3,231	1,523
Deferred assessment revenue for IT Renewal Program	<u>7,071,753</u>	<u>4,641,877</u>
	9,673,165	7,026,743
Net Assets	<u>1,369,845</u>	<u>1,325,658</u>
	<u>11,043,010</u>	<u>8,352,401</u>

Commitments (note 10)

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, 2008

	2008 \$	2007 \$
Revenue		
Assessments for Mandated Statistical Plan	9,017,065	9,988,095
Deficiency fees	611,539	369,710
Investment income	214,633	96,542
Assessment revenue for IT Renewal Program	599,627	-
	<hr/>	<hr/>
	10,442,864	10,454,347
Expenses		
Production of Mandated Statistical Plan	9,230,869	8,608,209
Amortization	599,627	-
Salaries and benefits	255,251	228,070
Travel and communication	8,843	19,213
Office and utilities	67,955	53,212
Board and committees	16,321	36,683
Professional services	152,062	171,887
Other charges	67,749	11,415
	<hr/>	<hr/>
	10,398,677	9,128,689
Excess of revenue over expenses for the year	44,187	1,325,658
Net assets - Beginning of year	<hr/>	<hr/>
	1,325,658	-
Net assets - End of year	<hr/>	<hr/>
	1,369,845	1,325,658

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, 2008

	2008 \$	2007 \$
Cash provided by (used in)		
Operating activities		
Cash receipts from participating insurers for assessments and deficiency fees	12,540,801	14,913,888
Interest received	220,225	90,950
Cash paid to statistical plan service provider for contracted services	(10,233,182)	(7,089,187)
Cash paid to secretariat service provider for services and expense reimbursement	(331,817)	(236,019)
Cash paid to other suppliers	(172,728)	(132,966)
	<u>2,023,299</u>	<u>7,546,666</u>
Investing activities		
Redemption (purchase) of short-term investment	5,099,782	(5,099,782)
Purchase of capital assets	(4,378,048)	(2,397,691)
	<u>721,734</u>	<u>(7,497,473)</u>
Change in cash during the year	2,745,033	49,193
Cash - Beginning of year	<u>49,193</u>	-
Cash - End of year	<u>2,794,226</u>	<u>49,193</u>

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

General Insurance Statistical Agency

Notes to Financial Statements

March 31, 2008

1 Purpose of General Insurance Statistical Agency (GISA)

GISA is an interjurisdictional association, membership of which is limited to the insurance regulatory authorities of the provinces and territories of Canada, whose objectives include:

- a) to act as a statistical agent on behalf of the participating insurance regulators (the 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 insurance regulators 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. No financial operations occurred in the first period ended March 31, 2006.

GISA is a not-for-profit association, 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. 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.

General Insurance Statistical Agency

Notes to Financial Statements

March 31, 2008

4 Summary of significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

Revenue

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 period. Revenue is recognized in income in the year it is 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 related capital assets.

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

Assessments collected in excess of actual expenses incurred by GISA in a particular year, including any deficiency fees, will result in lower annual assessment fees for the participating insurers in the following year.

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 software was implemented and, hence, amortization was recorded for three months.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires 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 revenue and expenses for the reporting period. Actual amounts could differ from these estimates.

General Insurance Statistical Agency

Notes to Financial Statements

March 31, 2008

5 Changes in accounting policies

Financial instruments

Effective April 1, 2007, GISA adopted the new accounting standards issued by The Canadian Institute of Chartered Accountants (CICA) related to financial instruments: CICA Section 3855, Financial Instruments - Recognition and Measurement, and CICA Section 3861, Financial Instruments - Disclosure and 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, 2007.

Under the new 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 depends on the purpose for which these financial instruments were acquired or issued, their characteristics and GISA's designation of such instruments. Financial assets classified as held-for-trading are measured at fair value. Financial assets classified as held-to-maturity or loans and receivables are measured at amortized cost. Financial liabilities are measured at amortized cost. In the prior year, short-term investments were recorded at cost, which due to the short-term nature of the investment was equal to amortized cost. Interest income, consistent with the prior year, is recorded as earned. GISA's classifications with respect to financial instruments are as follows:

Cash	held-for-trading
Receivables	loans and receivables
Short-term investment	held-to-maturity
Accounts payable	financial liabilities
Due to related parties (note 9)	financial liabilities

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

Credit risk

GISA is exposed to credit risk relating to the collection of receivables. GISA's credit risk is considered to be low.

Liquidity risk

GISA believes it has low liquidity risk given the makeup of its accounts payable.

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 investment and accounts payable) are not subject to significant market risk. GISA's market risk is considered to be low.

General Insurance Statistical Agency

Notes to Financial Statements

March 31, 2008

Accounting changes

Effective April 1, 2007, GISA adopted CICA Section 1506, Accounting Changes, which prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. This standard did not affect GISA's financial position or results of operations.

6 Accounts receivable due from members

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

7 GST receivable

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 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.

Subsequent to this ruling, in fiscal 2008, management initiated billings and collections related to GST and paid GST on all expenses. GISA has filed a GST return based on these receipts and payments and is awaiting an assessment from the CRA. The net amount receivable of \$1,319,126 is included on the statement of financial position as GST receivable.

8 Short-term investment

In 2007, the Board approved the purchase of short-term investments issued or guaranteed by the Government of Canada. The short-term investment was recorded at cost. Cost approximates fair value due to the short-term maturity of the investment.

As at March 31, 2008, GISA held no short-term investments. Cash in the amount of \$2,794,226 (2007 - \$49,193) is held in an interest bearing account.

In 2007, the short-term investment consisted of a 29-day Government of Canada treasury bill in the amount of \$5,099,782, maturing on April 19, 2007 and yielding 4%.

General Insurance Statistical Agency

Notes to Financial Statements

March 31, 2008

9 Related party transactions

Transactions with statistical plan service provider

During the year, the statistical plan service provider billed GISA \$9,230,869 (2007 - \$8,608,209) for the provision of data collection, compilation and reporting services and \$3,934,293 (2007 - \$3,104,615) for the 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 \$439,413 (2007 - \$366,554). 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 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, 2008 were \$8,245 (2007 - \$8,564) 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 contract.

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 \$1,708 (2007 - \$1,523) and have been recorded as a long-term liability due to related party and salaries and benefits expenses.

The costs of any unused vacation entitlements earned by employees are recorded in due to secretariat service provider. The costs for the year amounted to \$1,054 (2007 - \$11,773) and are included in salaries and benefits expenses.

General Insurance Statistical Agency

Notes to Financial Statements

March 31, 2008

10 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 applications; and licensed applications. Costs are shared on a proportional basis among GISA, 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 project cost over the remaining three years is as follows:

Fiscal year	GISA's share of project cost \$
2008-2009	3,285,000
2009-2010	4,073,000
2010-2011	1,166,000