

Financial Statements of

**CENTRE FOR STUDY OF
INSURANCE OPERATIONS -
CENTRE D'ÉTUDE DE LA
PRATIQUE D'ASSURANCE**

Year ended December 31, 2006



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AUDITORS' REPORT TO THE MEMBERS

We have audited the statement of financial position of Centre for Study of Insurance Operations - Centre d'Étude de la Pratique d'Assurance ("CSIO") as at December 31, 2006 and the statements of operations and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of CSIO'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 CSIO as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Toronto, Canada

February 26, 2007

CENTRE FOR STUDY OF INSURANCE OPERATIONS - CENTRE D'ÉTUDE DE LA PRATIQUE D'ASSURANCE

Statement of Financial Position

December 31, 2006, with comparative figures for 2005

	General Fund		CSIONet Fund		Capital Asset Fund		Portal Project Fund		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Assets										
Current assets:										
Cash	\$ 698,705	\$ 1,230,514	\$ 943,200	\$ 590,791	\$ -	\$ -	\$ -	\$ 551,762	\$ 1,641,905	\$ 2,373,067
Accounts receivable	11,063	63,003	7,420	1,610	-	-	-	-	18,483	64,613
Prepaid expenses	19,122	19,122	-	-	-	-	-	-	19,122	19,122
	<u>728,890</u>	<u>1,312,639</u>	<u>950,620</u>	<u>592,401</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>551,762</u>	<u>1,679,510</u>	<u>2,456,802</u>
Capital assets (note 4)	-	-	-	-	34,716	52,249	-	-	34,716	52,249
	<u>\$ 728,890</u>	<u>\$ 1,312,639</u>	<u>\$ 950,620</u>	<u>\$ 592,401</u>	<u>\$ 34,716</u>	<u>\$ 52,249</u>	<u>\$ -</u>	<u>\$ 551,762</u>	<u>\$ 1,714,226</u>	<u>\$ 2,509,051</u>
Liabilities and Fund Balances										
Current liabilities:										
Accounts payable and accrued liabilities	\$ 58,079	\$ 26,693	\$ 17,716	\$ 9,444	\$ -	\$ -	\$ -	\$ 982,455	\$ 75,795	\$ 1,018,592
Due to CSIONet Consortium	-	-	658,319	560,837	-	-	-	-	658,319	560,837
	<u>58,079</u>	<u>26,693</u>	<u>676,035</u>	<u>570,281</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>982,455</u>	<u>734,114</u>	<u>1,579,429</u>
Members' advances	-	-	-	-	-	-	-	12,176,162	-	12,176,162
Due to (from) funds	(274,585)	(1,346,834)	274,585	22,120	-	-	-	1,324,714	-	-
Fund balances:										
Invested in capital assets	-	-	-	-	34,716	52,249	-	-	34,716	52,249
Portal Project Fund deficit (note 3)	-	-	-	-	-	-	-	(13,931,569)	-	(13,931,569)
Unrestricted	945,396	2,632,780	-	-	-	-	-	-	945,396	2,632,780
	<u>945,396</u>	<u>2,632,780</u>	<u>-</u>	<u>-</u>	<u>34,716</u>	<u>52,249</u>	<u>-</u>	<u>(13,931,569)</u>	<u>980,112</u>	<u>(11,246,540)</u>
Commitments (note 6)										
	<u>\$ 728,890</u>	<u>\$ 1,312,639</u>	<u>\$ 950,620</u>	<u>\$ 592,401</u>	<u>\$ 34,716</u>	<u>\$ 52,249</u>	<u>\$ -</u>	<u>\$ 551,762</u>	<u>\$ 1,714,226</u>	<u>\$ 2,509,051</u>

See accompanying notes to financial statements.

CENTRE FOR STUDY OF INSURANCE OPERATIONS - CENTRE D'ÉTUDE DE LA PRATIQUE D'ASSURANCE

Statement of Operations and Changes in Fund Balances

Year ended December 31, 2006, with comparative figures for 2005

	General Fund		CSIONet Fund		Capital Asset Fund		Portal Project Fund		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenue:										
Members' assessments	\$ 1,173,362	\$ 1,250,375	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,173,362	\$ 1,250,375
Services	101,077	53,575	338,800	352,800	-	-	-	-	439,877	406,375
Investment	66,038	55,344	27,947	14,183	-	-	-	-	93,985	69,527
	<u>1,340,477</u>	<u>1,359,294</u>	<u>366,747</u>	<u>366,983</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,707,224</u>	<u>1,726,277</u>
Expenses:										
Salaries and benefits	715,074	563,428	80,337	90,550	-	-	-	-	795,411	653,978
Rent, tax and utilities	188,796	165,087	33,749	29,801	-	-	-	-	222,545	194,888
Amortization of capital assets	-	-	-	-	30,099	40,055	-	-	30,099	40,055
Consulting services	188,309	119,992	114,872	78,320	-	-	-	-	303,181	198,312
Computer technology	73,509	65,827	16,520	11,990	-	-	-	-	90,029	77,817
General and administration	242,799	167,117	20,856	15,557	-	-	-	-	263,655	182,674
	<u>1,408,487</u>	<u>1,081,451</u>	<u>266,334</u>	<u>226,218</u>	<u>30,099</u>	<u>40,055</u>	<u>-</u>	<u>-</u>	<u>1,704,920</u>	<u>1,347,724</u>
Excess of revenue over expenses (expenses over revenue):										
From continuing operations	(68,010)	277,843	100,413	140,765	(30,099)	(40,055)	-	-	2,304	378,553
From discontinued operations (note 3)	-	-	-	-	-	-	12,321,830	(3,183,758)	12,321,830	(3,183,758)
Due to CSIONet Consortium	-	-	(97,482)	(137,159)	-	-	-	-	(97,482)	(137,159)
Fund balances, beginning of year	2,632,780	2,361,359	-	-	52,249	68,258	(13,931,569)	(10,733,793)	(11,246,540)	(8,304,176)
Interfund transfers	(1,619,374)	(6,422)	(2,931)	(3,606)	12,566	24,046	1,609,739	(14,018)	-	-
Fund balances, end of year	<u>\$ 945,396</u>	<u>\$ 2,632,780</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,716</u>	<u>\$ 52,249</u>	<u>\$ -</u>	<u>\$ (13,931,569)</u>	<u>\$ 980,112</u>	<u>\$ (11,246,540)</u>

See accompanying notes to financial statements.

CENTRE FOR STUDY OF INSURANCE OPERATIONS - CENTRE D'ÉTUDE DE LA PRATIQUE D'ASSURANCE

Statement of Cash Flows

Year ended December 31, 2006, with comparative figures for 2005

	General Fund		CSIONet Fund		Capital Asset Fund		Portal Project Fund		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Cash flows provided by (used in):										
Member contributions	\$ 1,173,362	\$ 1,187,457	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,173,362	\$ 1,187,457
Services	153,017	53,575	332,990	355,684	-	-	(510,399)	382,852	(24,392)	792,111
Investment	66,038	55,344	27,947	14,183	-	-	-	-	93,985	69,527
Members' advances	-	-	-	-	-	-	985,609	2,899,022	985,609	2,899,022
Advances from General Fund	-	-	274,584	22,120	-	-	1,614,008	1,324,714	1,888,592	1,346,834
	1,392,417	1,296,376	635,521	391,987	-	-	2,089,218	4,606,588	4,117,156	6,294,951
Cash flows used in:										
Total expenses, excluding capital assets	(1,377,102)	(1,081,235)	(258,061)	(217,399)	-	-	(650,502)	(2,495,600)	(2,285,665)	(3,794,234)
Advances to Portal Project Fund	(1,614,008)	(1,324,714)	-	-	-	-	-	-	(1,614,008)	(1,324,714)
Advances to CSIONet Fund	(274,584)	(22,120)	-	-	-	-	-	-	(274,584)	(22,120)
Repayment of IBM loan	-	-	-	-	-	-	(362,943)	-	(362,943)	-
Repayment of members' advances	-	-	-	-	-	-	(298,552)	-	(298,552)	-
Purchases of capital assets	-	-	-	-	(12,566)	(24,046)	-	-	(12,566)	(24,046)
	(3,265,694)	(2,428,069)	(258,061)	(217,399)	(12,566)	(24,046)	(1,311,997)	(2,495,600)	(4,848,318)	(5,165,114)
Increase (decrease) in cash	(1,873,277)	(1,131,693)	377,460	174,588	(12,566)	(24,046)	777,221	2,110,988	(731,162)	1,129,837
Cash transferred between funds	1,341,468	1,565,714	(25,051)	(30,534)	12,566	24,046	(1,328,983)	(1,559,226)	-	-
Cash, beginning of year	1,230,514	796,493	590,791	446,737	-	-	551,762	-	2,373,067	1,243,230
Cash, end of year	\$ 698,705	\$ 1,230,514	\$ 943,200	\$ 590,791	\$ -	\$ -	\$ -	\$ 551,762	\$ 1,641,905	\$ 2,373,067

See accompanying notes to financial statements.

CENTRE FOR STUDY OF INSURANCE OPERATIONS - CENTRE D'ÉTUDE DE LA PRATIQUE D'ASSURANCE

Notes to Financial Statements

Year ended December 31, 2006

The Centre for Study of Insurance Operations - Centre d'Étude de la Pratique d'Assurance (the "Centre" or "CSIO") is incorporated as a non-profit organization under the Canada Business Corporations Act. The Centre is exempt from income taxes under the provisions of the Income Tax Act (Canada), provided certain conditions are met.

The objectives of the Centre are to provide a central forum for free discussion, to collect information on systems and operations currently in use in the independent insurance distribution system, to identify opportunities to improve the efficiency and effectiveness of the system, to test proposed solutions and to support new methods and systems. The Centre's operations are funded primarily by the assessments and advances made by the property and casualty insurers who are members.

1. Going concern basis of presentation:

These financial statements have been prepared on the going concern basis, which assumes the realization of assets and discharge of liabilities in the normal course of business. The CSIO Insurance Portal (the "Portal Project") was funded from member's advances. On December 13, 2005, the CSIO Board of Directors announced the wind down of the Portal Project and operations ceased in February 2006 (note 3).

2. Significant accounting policies:

The accompanying financial statements have been presented in accordance with Canadian generally accepted accounting principles.

The significant accounting policies are as follows:

(a) Fund accounting:

The Centre follows the restricted fund method of accounting for contributions.

The General Fund accounts for the Centre's core operations, which include all activities, excluding the network. The General Fund reports unrestricted resources.

CENTRE FOR STUDY OF INSURANCE OPERATIONS - CENTRE D'ÉTUDE DE LA PRATIQUE D'ASSURANCE

Notes to Financial Statements (continued)

Year ended December 31, 2006

2. Significant accounting policies (continued):

The Portal Project Fund reports the results of activities related to the Portal Project which has been discontinued (note 3).

The CSIONet Fund reports the results of activities related to CSIONet. CSIONet is an industry network for electronic communications whose operation was transferred to the Centre on July 1, 2002 from the Insurance Bureau of Canada.

The Capital Asset Fund reports the assets, liabilities, revenue and expenses related to the Centre's capital assets.

(b) Capital assets:

Purchased capital assets, consisting of office equipment and computer hardware and software, are recorded at historical cost less accumulated amortization. Amortization is reported in the Capital Asset Fund and is provided on a straight-line basis as follows:

Office equipment	Over 5 years
Computer hardware and software	Over 3 years
Leasehold improvements	Over lease term

(c) Revenue recognition:

Assessments related to general operations are recognized as revenue of the General Fund in the year in which they are assessed. All other restricted contributions are recognized as revenue of the appropriate restricted fund when the amount is received or collection is reasonably assured.

Unrestricted assessments are recognized as revenue of the General Fund in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

CENTRE FOR STUDY OF INSURANCE OPERATIONS - CENTRE D'ÉTUDE DE LA PRATIQUE D'ASSURANCE

Notes to Financial Statements (continued)

Year ended December 31, 2006

2. Significant accounting policies (continued):

(d) 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.

3. Portal Project Fund:

On December 13, 2005, the CSIO Board of Directors announced the wind down of the Portal's operations.

During 2006, the Centre refunded certain advances applicable to the Portal Project in the amount of \$298,552. The balance of the loans and related interest payable to members in the amount of \$12,863,218 was cancelled upon approval by the Board of Directors which, when combined with the expenses in the current year related to the Portal Project of \$541,388, results in the net revenue from discontinued operations of \$12,321,830. The remaining deficit of \$1,609,739 was transferred to the General Fund.

4. Capital assets:

			2006	2005
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment	\$ 101,138	\$ 97,413	\$ 3,725	\$ 8,495
Computer hardware	131,236	113,865	17,371	18,460
Computer software	18,836	14,012	4,824	3,303
Leasehold improvements	65,715	56,919	8,796	21,991
	\$ 316,925	\$ 282,209	\$ 34,716	\$ 52,249

The interfund transfer of \$12,566 (2005 - \$24,046) from the Portal Project Fund and CSIONet Fund to the Capital Asset Fund was made in order to fund the cash outlays for capital asset acquisitions.

CENTRE FOR STUDY OF INSURANCE OPERATIONS - CENTRE D'ÉTUDE DE LA PRATIQUE D'ASSURANCE

Notes to Financial Statements (continued)

Year ended December 31, 2006

5. Fair values of financial instruments:

Fair values represent estimates of the amounts at which instruments could be exchanged in a current transaction between willing parties. The fair values of cash, accounts receivable, accounts payable and accrued liabilities and the amount due to CSIONet Consortium approximate their carrying values due to the short-term nature of these financial instruments.

6. Commitments:

The Centre has entered into lease commitments for office premises, office equipment and information technology products and services. The minimum annual commitments required under these leases are as follows:

2007	\$ 121,000
2008	95,000
2009	63,000
	<hr/>
	\$ 279,000

7. Contingent liabilities:

The Centre is contingently liable with respect to pending litigation and claims arising in the normal course of business. Although the ultimate outcome of these matters is not presently determinable, management believes that the resolution of all such pending matters will not have a material adverse effect on the Centre's financial position or results of operations.