

Financial Statements of

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

Year ended December 31, 2007



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AUDITORS' REPORT

To the Members of Centre for Study of Insurance Operations -
Centre d'Étude de la Pratique d'Assurance

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, 2007 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, 2007 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, Licensed Public Accountants

Toronto, Canada

March 12, 2008

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

Statement of Financial Position

December 31, 2007, with comparative figures for 2006

	General Fund		CSIONet Fund		Capital Asset Fund		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Assets								
Current assets:								
Cash	\$ 624,145	\$ 698,705	\$ 795,523	\$ 943,200	\$ -	\$ -	\$ 1,419,668	\$ 1,641,905
Accounts receivable	60,277	11,063	29,897	7,420	-	-	90,174	18,483
Prepaid expenses	18,473	19,122	-	-	-	-	18,473	19,122
	<u>702,895</u>	<u>728,890</u>	<u>825,420</u>	<u>950,620</u>	<u>-</u>	<u>-</u>	<u>1,528,315</u>	<u>1,679,510</u>
Capital assets (note 4)	-	-	-	-	35,384	34,716	35,384	34,716
	<u>\$ 702,895</u>	<u>\$ 728,890</u>	<u>\$ 825,420</u>	<u>\$ 950,620</u>	<u>\$ 35,384</u>	<u>\$ 34,716</u>	<u>\$ 1,563,699</u>	<u>\$ 1,714,226</u>
Liabilities and Fund Balances								
Current liabilities:								
Accounts payable and accrued liabilities	\$ 24,198	\$ 58,079	\$ 8,249	\$ 17,716	\$ -	\$ -	\$ 32,447	\$ 75,795
Due to CSIONet Consortium	-	-	739,189	658,319	-	-	739,189	658,319
Deferred assessment revenue	48,450	-	-	-	-	-	48,450	-
	<u>72,648</u>	<u>58,079</u>	<u>747,438</u>	<u>676,035</u>	<u>-</u>	<u>-</u>	<u>820,086</u>	<u>734,114</u>
Due to (from) funds	(77,982)	(274,585)	77,982	274,585	-	-	-	-
Fund balances:								
Invested in capital assets	-	-	-	-	35,384	34,716	35,384	34,716
Portal Project Fund deficit (note 3)	-	-	-	-	-	-	-	-
Unrestricted	708,229	945,396	-	-	-	-	708,229	945,396
	<u>708,229</u>	<u>945,396</u>	<u>-</u>	<u>-</u>	<u>35,384</u>	<u>34,716</u>	<u>743,613</u>	<u>980,112</u>
Commitments (note 6)	-	-	-	-	-	-	-	-
	<u>\$ 702,895</u>	<u>\$ 728,890</u>	<u>\$ 825,420</u>	<u>\$ 950,620</u>	<u>\$ 35,384</u>	<u>\$ 34,716</u>	<u>\$ 1,563,699</u>	<u>\$ 1,714,226</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, 2007, with comparative figures for 2006

	General Fund		CSIONet Fund		Capital Asset Fund		Portal Project Fund		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Revenue:										
Members' assessments	\$ 1,279,257	\$ 1,173,362	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,279,257	\$ 1,173,362
Services	90,494	101,077	386,600	338,800	-	-	-	-	477,094	439,877
Investment	34,243	66,038	42,755	27,947	-	-	-	-	76,998	93,985
	<u>1,403,994</u>	<u>1,340,477</u>	<u>429,355</u>	<u>366,747</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,833,349</u>	<u>1,707,224</u>
Expenses:										
Salaries and benefits	950,651	715,074	186,355	80,337	-	-	-	-	1,137,006	795,411
Rent, tax and utilities	179,257	188,796	62,599	33,749	-	-	-	-	241,856	222,545
Amortization of capital assets	-	-	-	-	26,874	30,099	-	-	26,874	30,099
Consulting services	25,940	188,309	10,253	114,872	-	-	-	-	36,193	303,181
Computer technology	85,398	73,509	28,002	16,520	-	-	-	-	113,400	90,029
General and administration	380,636	242,799	53,014	20,856	-	-	-	-	433,650	263,655
	<u>1,621,882</u>	<u>1,408,487</u>	<u>340,223</u>	<u>266,334</u>	<u>26,874</u>	<u>30,099</u>	<u>-</u>	<u>-</u>	<u>1,988,979</u>	<u>1,704,920</u>
Excess of revenue over expenses (expenses over revenue):										
From continuing operations	(217,888)	(68,010)	89,132	100,413	(26,874)	(30,099)	-	-	(155,630)	2,304
From discontinued operations (note 3)	-	-	-	-	-	-	-	12,321,830	-	12,321,830
Due to CSIONet Consortium	-	-	(80,869)	(97,482)	-	-	-	-	(80,869)	(97,482)
Fund balances, beginning of year	945,396	2,632,780	-	-	34,716	52,249	-	(13,931,569)	980,112	(11,246,540)
Interfund transfers	(19,279)	(1,619,374)	(8,263)	(2,931)	27,542	12,566	-	1,609,739	-	-
Fund balances, end of year	<u>\$ 708,229</u>	<u>\$ 945,396</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,384</u>	<u>\$ 34,716</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 743,613</u>	<u>\$ 980,112</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, 2007, with comparative figures for 2006

	General Fund		CSIONet Fund		Capital Asset Fund		Portal Project Fund		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Cash flows provided										
by (used in):										
Member contributions	\$ 1,227,901	\$ 1,173,362	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,227,901	\$ 1,173,362
Services	92,637	153,017	364,123	332,990	-	-	-	(510,399)	456,760	(24,392)
Investment	34,243	66,038	42,755	27,947	-	-	-	-	76,998	93,985
Members' advances	48,450	-	-	-	-	-	-	985,609	48,450	985,609
Advances from General Fund	200,192	-	-	274,584	-	-	-	1,614,008	200,192	1,888,592
	1,603,423	1,392,417	406,878	635,521	-	-	-	2,089,218	2,010,301	4,117,156
Cash flows used in:										
Total expenses, excluding capital assets	(1,672,831)	(1,377,102)	(331,973)	(258,061)	-	-	-	(650,502)	(2,004,804)	(2,285,665)
Advances to Portal Project Fund	-	(1,614,008)	-	-	-	-	-	-	-	(1,614,008)
Advances to CSIONet Fund	-	(274,584)	-	-	-	-	-	-	-	(274,584)
Payments to General Fund	-	-	(200,192)	-	-	-	-	-	(200,192)	-
Repayment of IBM loan	-	-	-	-	-	-	-	(362,943)	-	(362,943)
Repayment of members' advances	-	-	-	-	-	-	-	(298,552)	-	(298,552)
Purchases of capital assets	-	-	-	-	(27,542)	(12,566)	-	-	(27,542)	(12,566)
	(1,672,831)	(3,265,694)	(532,165)	(258,061)	(27,542)	(12,566)	-	(1,311,997)	(2,232,538)	(4,848,318)
Increase (decrease) in cash	(69,408)	(1,873,277)	(125,287)	377,460	(27,542)	(12,566)	-	777,221	(222,237)	(731,162)
Cash transferred between funds	(5,152)	1,341,468	(22,390)	(25,051)	27,542	12,566	-	(1,328,983)	-	-
Cash, beginning of year	698,705	1,230,514	943,200	590,791	-	-	-	551,762	1,641,905	2,373,067
Cash, end of year	\$ 624,145	\$ 698,705	\$ 795,523	\$ 943,200	\$ -	\$ -	\$ -	\$ -	\$ 1,419,668	\$ 1,641,905

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, 2007

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, 2007

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, 2007

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.

(e) Change in accounting policies - financial instruments:

Effective January 1, 2007, the Centre adopted the following new standards of The Canadian Institute of Chartered Accountants (the "CICA"): (i) Section 3855, Financial Instruments - Recognition and Measurement and (ii) Section 1530, Comprehensive Income, which establish how financial instruments are recognized and measured for reporting purposes. The Centre has classified its investments as available-for-sale. Under these new standards, financial instruments are accounted for at fair value.

Prior to this, the Centre carried investments at cost which approximated fair value. The carrying amounts of other financial assets and liabilities approximate their fair values due to the short-term maturity of these financial instruments. As a result, there is no significant impact of the adoption of these new standards. The Centre has no other comprehensive income and, therefore, a statement of comprehensive income has not been presented.

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 2006 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.

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

Notes to Financial Statements (continued)

Year ended December 31, 2007

4. Capital assets:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment	\$ 101,138	\$ 99,783	\$ 1,355	\$ 3,725
Computer hardware	158,778	127,030	31,748	17,371
Computer software	18,836	16,555	2,281	4,824
Leasehold improvements	65,715	65,715	-	8,796
	\$ 344,467	\$ 309,083	\$ 35,384	\$ 34,716

The interfund transfer of \$27,542 (2006 - \$12,566) from the General Fund and CSIONet Fund to the Capital Asset Fund was made in order to fund the cash outlays for capital asset acquisitions.

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:

2008	\$ 121,240
2009	89,740
2010	26,740
2011	26,740
2012	22,283
	\$ 286,743