

AUDITORS' REPORT TO THE MEMBERS

We have audited the balance sheet of the Insurance Council of British Columbia as at May 31, 2002 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Council'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 the Council as at May 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Financial Institutions Act of British Columbia, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

KPMG LLP



Chartered Accountants
Vancouver, Canada
June 28, 2002

Balance Sheets

May 31, 2002 and 2001

	2002	2001
Assets		
Current assets:		
Cash	\$ 549,815	\$ 442,034
Short-term investments (note 3)	1,466,245	1,152,789
Accounts receivable	14,592	13,061
Inventory	45,180	33,683
Prepays	18,624	11,845
	2,094,456	1,653,412
Capital assets (note 4)	288,051	377,307
	\$ 2,382,507	\$ 2,030,719
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 215,916	\$ 223,927
Pending application fees	207,659	277,967
Deferred revenue	1,083,309	959,272
	1,506,884	1,461,166
Net assets:		
Invested in capital assets	288,051	377,307
Unrestricted operating surplus	587,572	192,246
	875,623	569,553
	\$ 2,382,507	\$ 2,030,719

Lease commitment (note 6)

Contingency (note 7)

See accompanying notes to financial statements.

Approved on behalf of the Council:

 Member
 Member

Statements of Changes in Net Assets

Years ended May 31, 2002 and 2001

	Invested in capital assets	Unrestricted operating surplus	2002 Total	2001 Total
Balance, beginning of year	\$ 377,307	\$ 192,246	\$ 569,553	\$ 324,538
Excess (deficiency) of revenue over expenses	(138,630)	444,700	306,070	245,015
Purchase of capital assets	49,374	(49,374)	-	-
Balance, end of year	\$ 288,051	\$ 587,572	\$ 875,623	\$ 569,553

See accompanying notes to financial statements.

Statements of Operations

Years ended May 31, 2002 and 2001

	2002	2001
Revenue (schedule)	\$ 3,148,755	\$ 2,963,791
Operating expenses:		
Advertising	7,155	12,490
Automobile and travel	52,294	82,551
Computer support -	-	2,100
Data processing	9,255	7,632
Equipment rentals and service	11,412	13,640
Exam room rental	14,391	7,868
Hearings	27,222	23,001
Insurance	9,800	9,257
Maintenance	9,919	11,005
Meetings	158,487	186,033
Office and miscellaneous	50,133	37,426
Postage and delivery	84,738	88,040
Proctor and marker fees	23,347	23,245
Professional fees	332,699	220,431
Rent	260,134	274,724
Salaries and benefits	1,522,866	1,490,423
Stationery, printing and supplies	83,660	82,109
Telephone	27,894	32,151
Training	18,649	15,384
	2,704,055	2,619,510
Excess of revenue over expenses before depreciation	444,700	344,281
Depreciation	(138,630)	(99,266)
Excess of revenue over expenses	\$ 306,070	\$ 245,015

See accompanying notes to financial statements.

Statements of Cash Flows

Years ended May 31, 2002 and 2001

	2002	2001
Operations:		
Excess of revenue over expenses	\$ 306,070	\$ 245,015
Depreciation, an item not involving cash	138,630	99,266
Changes in non-cash operating working capital (note 5)	25,911	(146,748)
	470,611	197,533
Investment:		
Increase in short-term investments	(313,456)	(59,814)
Purchase of capital assets	(49,374)	(106,272)
	(362,830)	(166,086)
Increase in cash	107,781	31,447
Cash, beginning of year	442,034	410,587
Cash, end of year	\$ 549,815	\$ 442,034

See accompanying notes to financial statements.

Notes to Financial Statements

Years ended May 31, 2002 and 2001

1. Operations:

The Council is constituted under the Financial Institutions Act of British Columbia. The Council determines the qualification and suitability of applicants for licensing as insurance agents, insurance salesmen and insurance adjusters, administers examinations to such applicants, and issues the respective licences. In addition, the Council investigates complaints and determines any required disciplinary action.

As well as making fee assessments against licensees and insurers to fund its expenses, the Council collects fees prescribed under the Financial Institutions Act on behalf of the provincial government.

2. Significant accounting policies:

(a) Revenue recognition:

Licence fee revenue recorded upon issuance is recognized over the term of the licence. As licence fees cover a two-year term, one-half of the fee is recognized as revenue in the initial year with the balance deferred and recognized as revenue in the second year of the licence.

Receivables from licensees for Council fees billed but not collected prior to the year end are not recognized in the accounts, as renewal is at the discretion of the member.

(b) Inventory: Insurance manuals are valued at the lower of cost and estimated net realizable value.

(c) Capital assets:

Asset	Basis	Rate
Furniture and equipment	Straight-line	10 years
Computer hardware	Straight-line	5 years
Computer software - SQL	Straight-line	3 years
Computer software - other	Straight-line	2 years
Leasehold improvements	Straight-line	Lease term expiring May 2002

(d) Pending application fees:

Pending application fees represent amounts collected for licence fees where the licence has not been issued prior to the year end.

(e) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from estimates used in the preparation of the financial statements.

Notes to Financial Statements

Years ended May 31, 2002 and 2001

3. Short-term investments:

Short-term investments, which are carried at invested principal plus interest earned to date, represent three-year term investments with eight Canadian life insurers, no one of which holds more than 15% of the total invested. The weighted average term to maturity is 635 days (2001 - 412 days). The weighted average effective interest rate is 4.737% (2001 - 5.276%).

4. Capital assets:

	2002	2001		
	Cost	Accumulated depreciation	Net book value	Net book value
Furniture and equipment	\$ 240,705	\$ 113,716	\$ 126,989	\$ 145,209
Computer hardware	169,390	122,957	46,433	47,212
Computer software	88,906	81,410	7,496	-
Computer software - SQL	160,700	53,567	107,133	160,700
Leasehold improvements	112,391	112,391	-	24,186
	\$ 772,092	\$ 484,041	\$ 288,051	\$ 377,307

5. Statement of cash flows information:

	2002	2001
Changes in non-cash operating working capital:		
Accounts receivable	\$ (1,531)	\$ (8,936)
Inventory	(11,497)	7,744
Prepays	(6,779)	2,579
Accounts payable and accrued liabilities	(8,011)	(13,165)
Pending application fees	(70,308)	(64,694)
Deferred revenue	124,037	(70,276)
	\$ 25,911	\$ (146,748)

Notes to Financial Statements

Years ended May 31, 2002 and 2001

6. Lease commitment:

The Council has entered into an operating lease with respect to its office premises extending until May 2012, which requires the following annual rental payments, plus operating costs and property taxes:

2003	\$ 117,000
2004	117,000
2005	117,000
2006	117,000
2007	119,000
Thereafter	684,000

7. Contingency:

The Council has been advised of a possible claim by a licensee for costs and unquantified damages related to disciplinary proceedings against the licensee. Management believes the licensee's claim is without merit and, accordingly, no provision has been recorded in these financial statements in respect of this matter.

Schedules of Revenue

Years ended May 31, 2002 and 2001

	2002	2001
Revenue:		
Council fees - Licensees:		
Agents - Life, Accident and Sickness	\$ 950,660	\$ 911,160
Agents - General / Vehicle	919,130	890,298
Salesmen - Travel	281,880	304,397
Non-resident endorsement	23,325	29,700
Adjusters	49,405	49,425
Transfers and other	14,642	43,534
	2,239,042	2,228,514
Council fees - Insurers	239,400	236,700
Examination fees:		
Life	411,620	337,755
Other	2,475	935
Interest and other	114,173	112,861
Sale of insurance manuals, net	142,045	47,026
	\$ 3,148,755	\$ 2,963,791