

**AUDITORS' REPORT TO THE MEMBERS**

We have audited the balance sheet of the Insurance Council of British Columbia as at May 31, 2005 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, 2005 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  
July 8, 2005

**INSURANCE COUNCIL OF BRITISH COLUMBIA**

Balance Sheets

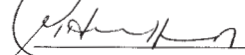

May 31, 2005 and 2004

	2005	2004
<b>Assets</b>		
Current assets:		
Cash	\$ 512,055	\$ 871,777
Accounts receivable	10,802	16,671
Prepays	49,144	39,008
	572,001	927,456
Investments (note 3)	2,321,643	1,904,045
Capital assets (note 4)	195,847	222,187
	\$ 3,089,491	\$ 3,053,688
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 235,728	\$ 163,979
Pending application fees	203,827	191,178
Deferred revenue	1,019,504	1,152,105
	1,459,059	1,507,262
Tenant inducement	36,528	41,746
Net assets:		
Invested in capital assets	195,847	222,187
Unrestricted operating surplus	1,398,057	1,282,493
	1,593,904	1,504,680
	\$ 3,089,491	\$ 3,053,688

Commitments (note 6)

See accompanying notes to financial statements.

Approved on behalf of the Council:

 Member  
 Member

**INSURANCE COUNCIL OF BRITISH COLUMBIA**

Statements of Changes in Net Assets

Years ended May 31, 2005 and 2004

	Invested in capital assets	Unrestricted operating surplus	2005 Total	2004 Total
Balance, beginning of year	\$ 222,187	\$ 1,282,493	\$ 1,504,680	\$ 1,222,377
Excess (deficiency) of revenue over expenses	(74,434)	163,658	89,224	282,303
Purchase of capital assets	48,094	(48,094)	-	-
Balance, end of year	\$ 195,847	\$ 1,398,057	\$ 1,593,904	\$ 1,504,680

See accompanying notes to financial statements.

**INSURANCE COUNCIL OF BRITISH COLUMBIA**

Statements of Operations

Years ended May 31, 2005 and 2004

	2005	2004
Revenue (schedule)	\$ 2,919,083	\$ 2,963,872
Operating expenses:		
Advertising	10,749	9,677
Automobile and travel	45,946	40,744
Data processing and information system maintenance	120,352	122,469
Equipment rentals and service	11,461	11,187
Exam room rental	23,515	12,248
Hearings	250	10,731
Insurance	18,523	17,067
Maintenance	12,325	9,920
Meetings	168,754	138,597
Office and miscellaneous	27,048	33,957
Postage and delivery	97,728	90,629
Proctor and marker fees	71,316	25,490
Professional fees	113,809	143,035
Rent	253,806	247,494
Salaries and benefits	1,669,907	1,513,075
Stationery, printing and supplies	79,553	78,168
Telephone	25,428	24,020
Training	4,955	10,469
	2,755,425	2,538,977
Excess of revenue over expenses before amortization	163,658	424,895
Amortization	(74,434)	(142,592)
Excess of revenue over expenses	\$ 89,224	\$ 282,303

See accompanying notes to financial statements.

**INSURANCE COUNCIL OF BRITISH COLUMBIA**

Statements of Cash Flows

Years ended May 31, 2005 and 2004

	2005	2004
Operations:		
Excess of revenue over expenses	\$ 89,224	\$ 282,303
Items not involving cash:		
Amortization	74,434	142,592
Decrease in rent expense from tenant inducement	(5,218)	(5,218)
Changes in non-cash operating working capital (note 5)	(52,470)	(175,974)
	105,970	243,703
Investments:		
Increase in investments	(417,598)	(65,899)
Purchase of capital assets	(48,094)	(70,171)
	(465,692)	(136,070)
Increase (decrease) in cash	(359,722)	107,633
Cash, beginning of year	871,777	764,144
Cash, end of year	\$ 512,055	\$ 871,777

See accompanying notes to financial statements.



## INSURANCE COUNCIL OF BRITISH COLUMBIA

Notes to Financial Statements

Years ended May 31, 2005 and 2004

### 1. Operations:

The Insurance Council of British Columbia (the "Council") is constituted under the Financial Institutions Act of British Columbia (the "Act"). 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 Act on behalf of the provincial government.

### 2. Significant accounting policies:

#### (a) Revenue recognition:

Application fee revenue is recognized over the term of the licence. As application fees cover a two-year term, one-half of the fees are 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) Capital assets:

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

#### (c) Pending application fees:

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

#### (d) Tenant inducement:

Tenant inducement represents amounts received upon signing a new office premises lease. Such amounts are recognized as a reduction of rent expense on a straight-line basis over the lease term.

#### (e) 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 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.

## INSURANCE COUNCIL OF BRITISH COLUMBIA

Notes to Financial Statements

Years ended May 31, 2005 and 2004

### 3. Investments:

Investments, which are carried at invested principal plus accrued interest, represent three to five year term investments with twelve Canadian life insurers and credit unions, no one of which holds more than 23% (2004 - 15%) of the total invested. The weighted average term to maturity is 545 days (2004 - 408 days). The weighted average effective interest rate is 3.07% (2004 - 3.58%).

### 4. Capital assets:

	2005		2004	
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and equipment	\$ 270,836	\$ 188,139	\$ 82,697	\$ 106,369
Leasehold improvements	41,469	7,687	33,782	31,864
Computer hardware	175,726	101,765	73,961	81,302
Computer software - SQL	8,276	4,138	4,138	-
Computer software - other	7,842	6,573	1,269	2,652
	\$ 504,149	\$ 308,302	\$ 195,847	\$ 222,187

### 5. Statements of cash flows information:

	2005	2004
Changes in non-cash operating working capital:		
Accounts receivable	\$ 5,869	\$ 3,552
Prepays	(10,136)	8,533
Accounts payable and accrued liabilities	71,749	(163,938)
Pending application fees	12,649	(94,734)
Deferred revenue	(132,591)	70,613
	\$ (52,470)	\$ (175,974)

## INSURANCE COUNCIL OF BRITISH COLUMBIA

Notes to Financial Statements

Years ended May 31, 2005 and 2004

### 6. Commitments:

The Council has entered into an operating lease with respect to its office premises, extending until May 2012, as well as certain commitments for networking and technical support services, extending until March 2006. The following annual payments are required in respect of these commitments, excluding operating costs and property taxes on rented premises:

2006	\$ 126,900
2007	139,000
2008	139,000
2009	139,000
2010	139,000
Thereafter	270,000

## INSURANCE COUNCIL OF BRITISH COLUMBIA

Notes to Financial Statements

Years ended May 31, 2005 and 2004

### 7. Financial instruments:

#### (a) Fair values:

The Council's financial instruments include cash, accounts receivable, investments and accounts payable and accrued liabilities. With the exception of investments, the carrying values of such financial instruments are considered by management to approximate their fair values due to their short-term nature. With respect to investments, it is the Council's intent to hold the individual instruments to maturity, and, accordingly, no attempt has been made to estimate their fair values.

#### (b) Interest rate risk:

The Council's investments are reinvested upon maturity at interest rates available at the time. As a result, fluctuations in interest rates on such investments will affect interest income earned.

## INSURANCE COUNCIL OF BRITISH COLUMBIA

Schedules of Revenue

Years ended May 31, 2005 and 2004

	2005	2004
Revenue:		
Council fees - Licensees:		
Agents - General / Vehicle	\$ 1,037,965	\$ 1,003,420
Agents - Life, Accident and Sickness	989,229	999,845
Salesmen - Travel	196,008	258,923
Adjusters	48,379	49,710
Non-resident endorsement	24,900	21,325
	2,296,481	2,333,223
Council fees - Insurers	215,100	222,300
Examination fees:		
Life	289,213	212,520
Other	8,885	7,785
Interest and other	109,404	188,044
	\$ 2,919,083	\$ 2,963,872