

AUDITORS' REPORT TO THE MEMBERS

We have audited the balance sheet of the Insurance Council of British Columbia as at May 31, 2003 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, 2003 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

INSURANCE COUNCIL OF BRITISH COLUMBIA


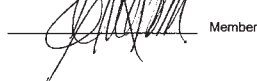
Balance Sheets
May 31, 2003 and 2002

	2003	2002
Assets		
Current assets:		
Cash	\$ 764,144	\$ 549,815
Short-term investments	-	651,138
Accounts receivable	20,223	14,592
Inventory	-	45,180
Prepays	47,541	18,624
	831,908	1,279,349
Investments (note 3)	1,838,146	815,107
Capital assets (note 4)	294,608	288,051
	\$ 2,964,662	\$ 2,382,507
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 327,917	\$ 215,916
Pending application fees	285,912	207,659
Deferred revenue	1,081,492	1,083,309
	1,695,321	1,506,884
Tenant inducement	46,964	-
Net assets:		
Invested in capital assets	294,608	288,051
Unrestricted operating surplus	927,769	587,572
	1,222,377	875,623
	\$ 2,964,662	\$ 2,382,507

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, 2003 and 2002

	Invested in capital assets	Unrestricted operating surplus	2003 Total	2002 Total
Balance, beginning of year	\$ 288,051	\$ 587,572	\$ 875,623	\$ 569,553
Excess (deficiency) of revenue over expenses	(144,324)	491,078	346,754	306,070
Purchase of capital assets	150,881	(150,881)	-	-
Balance, end of year	\$ 294,608	\$ 927,769	\$ 1,222,377	\$ 875,623

See accompanying notes to financial statements.

INSURANCE COUNCIL OF BRITISH COLUMBIA

Statements of Operations
Years ended May 31, 2003 and 2002

	2003	2002
Revenue (schedule)	\$ 3,187,375	\$ 3,148,755
Operating expenses:		
Advertising	9,387	7,155
Automobile and travel	44,740	52,294
Data processing	8,883	9,255
Equipment rentals and service	10,773	11,412
Exam room rental	21,635	14,391
Hearings	11,159	27,222
Insurance	12,322	9,800
Maintenance	9,712	9,919
Meetings	159,637	158,487
Office and miscellaneous	71,606	50,133
Postage and delivery	84,269	84,738
Proctor and marker fees	34,096	23,347
Professional fees	268,214	332,699
Rent	245,645	260,134
Salaries and benefits	1,531,234	1,522,866
Stationery, printing and supplies	132,637	83,660
Telephone	29,817	27,894
Training	10,531	18,649
	2,696,297	2,704,055
Excess of revenue over expenses before amortization	491,078	444,700
Amortization	(144,324)	(138,630)
Excess of revenue over expenses	\$ 346,754	\$ 306,070

See accompanying notes to financial statements.

INSURANCE COUNCIL OF BRITISH COLUMBIA

Statements of Cash Flows
Years ended May 31, 2003 and 2002

	2003	2002
Operations:		
Excess of revenue over expenses	\$ 346,754	\$ 306,070
Items not involving cash:		
Amortization	144,324	138,630
Decrease in rent expense from tenant inducement	(5,218)	-
Changes in non-cash operating working capital (note 5)	199,069	25,911
Tenant inducement received	52,182	-
	737,111	470,611
Investments:		
Increase in investments	(371,901)	(313,456)
Purchase of capital assets	(150,881)	(49,374)
	(522,782)	(362,830)
Increase in cash	214,329	107,781
Cash, beginning of year	549,815	442,034
Cash, end of year	\$ 764,144	\$ 549,815

See accompanying notes to financial statements.



INSURANCE COUNCIL OF BRITISH COLUMBIA

Notes to Financial Statements

Years ended May 31, 2003 and 2002

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 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) 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

(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) 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.

INSURANCE COUNCIL OF BRITISH COLUMBIA

Notes to Financial Statements

Years ended May 31, 2003 and 2002

2. Significant accounting policies (continued):

(f) 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.

(g) Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

3. Investments:

Investments, which are carried at invested principal plus accrued interest, represent three-year term investments with twelve Canadian life insurers, no one of which holds more than 15% of the total invested. The weighted average term to maturity is 773 days (2002 - 635 days). The weighted average effective interest rate is 3.580% (2002 - 4.737%).

4. Capital assets:

	2003		2002	
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and equipment	\$ 260,536	\$ 134,313	\$ 126,223	\$ 126,989
Computer hardware	173,458	80,550	92,908	46,433
Computer software - SQL	160,700	107,133	53,567	107,133
Computer software - other	58,813	36,903	21,910	7,496
	\$ 653,507	\$ 358,899	\$ 294,608	\$ 288,051

5. Statements of cash flows information:

	2003	2002
Changes in non-cash operating working capital:		
Accounts receivable	\$ (5,631)	\$ (1,531)
Inventory	45,180	(11,497)
Prepays	(28,917)	(6,779)
Accounts payable and accrued liabilities	112,001	(8,011)
Pending application fees	78,253	(70,308)
Deferred revenue	(1,817)	124,037
	\$ 199,069	\$ 25,911

INSURANCE COUNCIL OF BRITISH COLUMBIA

Notes to Financial Statements

Years ended May 31, 2003 and 2002

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 2005. The following annual payments are required in respect of these commitments, excluding operating costs and property taxes on rented premises:

2003	\$ 199,000
2004	199,000
2005	185,000
2006	117,000
2007	139,000
Thereafter	545,000

7. Financial instruments:

(a) Fair value:

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, 2003 and 2002

	2003	2002
Revenue:		
Council fees - Licensees:		
Agents - Life, Accident and Sickness	\$ 1,034,785	\$ 949,865
Agents - General / Vehicle	935,868	919,130
Salesmen - Travel	261,972	281,880
Adjusters	49,230	49,405
Non-resident endorsement	20,675	23,325
	2,302,530	2,223,605
Council fees - Insurers	224,100	239,400
Examination fees:		
Life	387,755	411,620
Other	9,510	2,475
Interest and other	176,970	129,610
Sale of insurance manuals, net	86,510	142,045
	\$ 3,187,375	\$ 3,148,755