

Insurance Council of British Columbia
Financial Statements
For the year ended May 31, 2019

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For the year ended May 31, 2019

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Independent Auditor's Report

To the Members of the
Insurance Council of British Columbia

Opinion

We have audited the accompanying financial statements of the Insurance Council of British Columbia (the "Council"), which comprise the Statement of Financial Position as at May 31, 2019, and the Statements of Operations, Changes in Net Assets and Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Council as at May 31, 2019, and its results of operations, its changes in net assets, and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matters

We draw attention to Note 10 to the financial statements, which explains that certain comparative information presented for the year ended May 31, 2018 has been restated. Our opinion is not modified in respect of this matter.

Responsibility of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Council or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Council's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Council to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Professional Accountants

Vancouver, British Columbia
August 27, 2019

Insurance Council of British Columbia
Statement of Financial Position

May 31	2019	2018
		(Restated, Note 10)
Assets		
Current		
Cash (Note 2)	\$ 9,145,525	\$ 7,720,102
Short-term investments (Note 3)	1,611,880	903,033
Accounts receivable	47,666	65,197
Prepaid expenses	141,224	43,940
	<u>10,946,295</u>	<u>8,732,272</u>
Long-term investments (Note 3)	400,166	-
Property and equipment (Note 4)	1,404,402	1,398,033
	<u>\$ 12,750,863</u>	<u>\$ 10,130,305</u>
Liabilities and Net Assets		
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 5)	\$ 1,244,721	\$ 970,443
Pending application fees	161,290	168,048
Deferred licensing revenue	6,781,956	5,596,205
Tenant inducement - current portion	45,766	45,766
	<u>8,233,733</u>	<u>6,780,462</u>
Tenant inducement	91,310	137,076
	<u>8,325,043</u>	<u>6,917,538</u>
Net Assets		
Investment in property and equipment	1,267,326	1,215,191
Unrestricted	3,158,494	1,997,576
	<u>4,425,820</u>	<u>3,212,767</u>
	<u>\$ 12,750,863</u>	<u>\$ 10,130,305</u>

Approved on behalf of Council:

	Member
	Member

Insurance Council of British Columbia
Statement of Operations

For the year ended May 31	2019	2018
Revenue		
Council fees - Licensees	\$ 5,833,705	\$ 3,995,665
Council fees - First and re-applications	1,179,090	1,104,800
Council fees - Insurers	452,000	456,000
Examination fees	354,100	328,325
Interest	87,724	34,780
Fines	81,000	239,394
Investigative costs recovery	20,593	17,913
Hearing costs recovery	19,596	4,236
Other	19,159	17,294
	8,046,967	6,198,407
Expenses		
Amortization	437,887	442,587
Data processing and information system maintenance	535,244	490,561
Equipment rentals and service	20,816	18,981
Hearings	590,953	311,762
Insurance	3,033	22,544
Loss on disposal of property and equipment	17,876	30,018
Maintenance	17,856	7,562
Meetings	131,840	251,490
Minor furniture and equipment	7,968	4,609
Office and miscellaneous	61,048	65,188
Postage and delivery	31,069	40,622
Professional fees	233,445	511,236
Public relations	9,367	22,516
Qualifying examinations	125,904	189,432
Rent	614,991	607,602
Salaries and benefits	3,724,494	4,148,388
Service Fees	150,495	71,243
Stationery, printing and supplies	22,697	34,637
Telephone	26,356	30,053
Training	28,813	24,218
Travel	41,762	52,511
	6,833,914	7,377,760
Excess (deficiency) of revenue over expenses	\$ 1,213,053	\$ (1,179,353)

Insurance Council of British Columbia
Statement of Changes in Net Assets

For the year ended May 31

	Investment in Property and Equipment	Unrestricted	2019	2018
Balance, beginning of year	\$ 1,215,191	\$ 1,997,576	\$ 3,212,767	\$ 4,392,121
Excess (deficiency) of revenue over expenses	-	1,213,053	1,213,053	(1,179,353)
Amortization of property and equipment	(437,887)	437,887	-	-
Purchase of property and equipment	462,132	(462,132)	-	-
Amortization of tenant inducement	45,766	(45,766)	-	-
Loss on disposal of property and equipment	(17,876)	17,876	-	-
Balance, end of year	\$ 1,267,326	\$ 3,158,494	\$ 4,425,820	\$ 3,212,768

Insurance Council of British Columbia
Statement of Cash Flows

For the year ended May 31	2019	2018
		(Restated, Note 10)
Cash provided by (used in)		
Operating activities		
Excess (deficiency) of revenue over expenses	\$ 1,213,053	\$ (1,179,353)
Items not involving cash		
Amortization	437,887	442,587
Amortization of tenant inducement	(45,766)	(45,877)
Loss on disposal of property and equipment	17,876	30,018
	<u>1,623,050</u>	<u>(752,625)</u>
Changes in non-cash operating working capital		
Accounts receivable	17,531	(29,202)
Prepaid expenses	(97,284)	39,685
Accounts payable and accrued liabilities	274,278	(160,882)
Pending application fees	(6,758)	53,790
Deferred licensing revenue	1,185,751	2,172,125
	<u>2,996,568</u>	<u>1,322,891</u>
Investing activities		
Purchase of investments	(2,012,046)	-
Disposal of investments	903,033	1,407,252
Purchase of property and equipment	(462,132)	(84,319)
	<u>(1,571,145)</u>	<u>1,322,933</u>
Increase in cash during the year	1,425,423	2,645,824
Cash, beginning of year	7,720,102	5,074,278
Cash, end of year	\$ 9,145,525	\$ 7,720,102

Insurance Council of British Columbia

Notes to the Financial Statements

May 31, 2019

1. Significant Accounting Policies

(a) Purpose

The Insurance Council of British Columbia (the "Council") is constituted under the Financial Institutions Act of British Columbia (the "Act") and is a tax-exempt body under Section 149 of the *Income Tax Act*. The Council determines the qualification and suitability of applicants for licensing as insurance agents, insurance salespersons 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.

(b) Basis of Accounting

The financial statements have been prepared using Canadian accounting standards for not-for-profit organizations ("ASNPO").

(c) Financial Instruments

Financial instruments are recorded at fair value when acquired or issued. All short and long term investments have been designated to be in the fair value category, with gains and losses reported in operations. All other financial instruments are reported at cost or amortized cost less impairment, if applicable. Financial assets are tested for impairment when changes in circumstances indicate the asset could be impaired. Transaction costs are expensed for those items remeasured at fair value at each statement of financial position date and charged to the financial instrument for those measured at amortized cost.

Insurance Council of British Columbia

Notes to the Financial Statements

May 31, 2019

1. Significant Accounting Policies (Continued)

(d) Revenue Recognition

The Council follows the deferral method of accounting whereby restricted revenues are deferred and recognized at the time the related expenditures are incurred. Unrestricted revenues are recorded when received.

With the exception of the internal restriction for Investment in Property and Equipment, there are no restrictions over the net assets of the Council.

Revenue (Council fees - Licensees) are recognized over the term of the license period. Council fees - Licensees related to the subsequent fiscal year and received in the current fiscal year are recorded as deferred licensing revenue.

Revenue (Council fees - First and re-applications) are recognized when the application is processed or when the licensee decides to not proceed with the application and forfeits the fee.

Revenue (Council fees - Insurers) are recognized when collection is reasonably assured.

Examination revenue is non-refundable and is recognized when the exam is written.

Fines revenue and investigation and hearing costs recovery are recognized as revenue when collection is reasonably assured.

(e) Property and Equipment

Property and equipment are recorded at historical cost and amortized using the straight-line method over their estimated useful lives, commencing when they are put into use, over the following periods:

Furniture and equipment	5-10 years
Computer hardware	5 years
Minor computer software	2 years
Major computer software systems	5 years

Leasehold improvements are amortized over the remaining lease term.

(f) Employee Future Benefits

The Council and its employees make contributions to a defined contribution Group RRSP plan. The Council matches all staff contributions up to 5% of gross earnings for all employees and 6% for senior management. The Council's contributions to the Plan are expensed when incurred.

Insurance Council of British Columbia
Notes to the Financial Statements

May 31, 2019

1. Significant Accounting Policies (Continued)

(g) Pending Application Fees

Pending application fees represent amounts collected for Council fees - Licensees where the licence has not been issued prior to the fiscal year-end. The revenue is recognized when the licence is issued.

(h) Tenant Inducement

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

(i) Use of Estimates

The preparation of financial statements in accordance with Canadian Accounting Standards for Not-For-Profit Organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates included in these financial statements are the useful lives of the property and equipment and completeness of accounts payable and accrued liabilities. Actual results could differ from management's best estimates as additional information becomes available in the future.

2. Cash

The Council's bank accounts are held at one chartered bank earning interest at market rates.

Insurance Council of British Columbia
Notes to the Financial Statements

May 31, 2019

3. Investments

Investments are held with Canadian life insurers and financial institutions as follows:

2019 Short-term Investments

	Interest Rate	Maturity Date	
Guaranteed Investment Certificate	2.75%	10/25/2019	\$ 327,987
Guaranteed Investment Certificates	2.78-3.00%	01/28/2020	983,776
Guaranteed Investment Certificates	2.35-2.65%	05/25/2020	300,117
			<u>\$ 1,611,880</u>

2019 Long-term Investments

	Interest Rate	Maturity Date	
Guaranteed Investment Certificates	2.60-2.65%	05/25/2021	<u>\$ 400,166</u>

2018 Short-term Investments

	Interest Rate	Maturity Date	
Non-registered life insurance policy	N/A	N/A	\$ 1,020
Cashable Compound	0.80%	05/14/2019	120,485
Cash Surrender Value	0.80%	12/08/2018	364,025
Guaranteed Investment Certificate	0.83%	05/18/2019	294,811
Cashable Compound	0.70%	05/15/2019	122,692
			<u>\$ 903,033</u>

The Council's investments are reinvested upon maturity at interest rates available at the time. As a result, fluctuation in interest rates on such investments will affect interest income earned and the fair market value of the investments.

Insurance Council of British Columbia
Notes to the Financial Statements

May 31, 2019

4. Property and Equipment

	2019		2018	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and equipment	\$ 230,018	\$ 174,466	\$ 55,552	\$ 66,082
Leasehold improvements	1,262,704	711,736	550,968	441,458
Computer hardware	310,869	238,870	71,999	89,746
Minor computer software	164,199	123,311	40,888	39,159
Major computer software systems	1,405,455	720,460	684,995	761,588
	\$ 3,373,245	\$ 1,968,843	\$ 1,404,402	\$ 1,398,033

5. Accounts Payable and Accrued Liabilities

	2019	2018
Accounts payable and accrued liabilities	\$ 364,847	\$ 121,682
Accrued vacation	97,646	79,366
Accrued retirement allowance	-	34,167
Salaries payable	11,092	40,428
Other accounts payable	-	2,000
Government fees payable	771,136	692,800
	\$ 1,244,721	\$ 970,443

Insurance Council of British Columbia

Notes to the Financial Statements

May 31, 2019

6. Commitments

Council has an operating lease with respect to its office premises until May 31, 2022. Pursuant to the terms of the lease, the Council will pay rent of an annual base rent plus its proportionate share of operating costs and property taxes. The annual base rent payments required in respect of the rented premises are as follows:

2020	\$ 362,297
2021	362,297
2022	<u>362,297</u>
	<u>\$ 1,086,891</u>

7. Defined Contribution Retirement Plan

Council maintains a defined contribution Group RRSP plan for its employees. During the year, the Council paid \$145,829 (2018 - \$130,653) for employer contributions to the plan.

8. Financial Instruments Risks

The Council through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of those risks at May 31, 2019. There have been no changes to the risks in the current year.

a) Credit Risk

Credit risk is the risk that the Council will incur a loss due to the failure by its debtors to meet their contractual obligations. Financial instruments that potentially subject the Council to significant concentrations of credit risk consist primarily of cash and investments. The Council limits its exposure to credit risk by placing its cash and investments with various high credit quality financial institutions, in accordance with investment policies adopted by the Council.

The Council is also exposed to credit risk arising from all of its bank accounts being held at one financial institution and deposits are only insured up to \$100,000.

Insurance Council of British Columbia
Notes to the Financial Statements

May 31, 2019

8. Financial Instruments Risks (continued)

b) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fixed-interest instruments subject the Council to a fair value risk. The interest rates and terms of cash and investments are disclosed in Notes 2 and 3. The Council limits its exposure by ensuring the investments have a fixed term and guaranteed maturity value, and by limiting the maximum investment term in accordance with investment policies adopted by the Council.

c) Liquidity Risk

Liquidity risk is the risk that the Council will not be able to meet its obligations as they fall due. The Council maintains adequate levels of working capital and prepares cash flow forecasts to ensure all its obligations can be met when they fall due.

9. Related Party Transactions

During the year, \$8,750 (2018 - \$77,500) was paid to family members of the Council's employees for exam proctor services provided. These transactions were in the normal course of operations and are measured at their exchange amount.

10. Prior Period Adjustment

Undeposited cheques totaling \$720,100 received during the fiscal year ended May 31, 2018 in relation to licensing fees covering the fiscal year ended May 31, 2019 were not recorded as cash and deferred Council licensing revenue as at May 31, 2018. As a result, as at May 31, 2018, cash and deferred licensing revenue on the statement of Financial Position were understated by \$720,100, and cash flows from operating activities was understated by \$720,100 on the statement of Cash Flows for the year ended May 31, 2018. These errors have been corrected and retroactively re-stated in the comparative figures in these financial statements.