INSURANCE COUNCIL OF BRITISH COLUMBIA

Financial Statements
May 31, 2023

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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF INSURANCE COUNCIL OF BRITISH COLUMBIA

Opinion

We have audited the financial statements of Insurance Council of British Columbia (the "Council"), which comprise:

- the statement of financial position as at May 31, 2023;
- the statement of operations for the year then ended;
- the statement of changes in net assets for the year then ended;
- the statement of cash flows for the year then ended; and
- the 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, 2023, and the results of its operations and its 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 *Auditors' 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.

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

Management is responsible for the preparation and fair presentation of the 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.

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Auditors' 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 auditors' 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. 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 auditors' 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 auditors' 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.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
September 19, 2023

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INSURANCE COUNCIL OF BRITISH COLUMBIA
Statement of Financial Position
May 31

	2023	2022
Assets		
Current		
Cash (note 4)	$ 5,103,069	$ 4,877,674
Short-term investments (note 5)	13,854,225	11,844,344
Receivables	131,742	60,330
Prepaid expenses	227,440	191,839
Deposits on furniture and equipment	-	322,332
	19,316,476	17,296,519
Long-term investments (note 5)	-	400,615
Property and equipment (note 6)	2,881,097	1,280,103
	$ 22,197,573	$ 18,977,237
Liabilities		
Current		
Accounts payable and accrued liabilities (note 7)	$ 1,535,563	$ 1,431,130
Pending application fees	208,150	112,725
Deferred licensing revenue	12,192,260	10,593,820
	13,935,973	12,137,675
Net assets		
Investment in property and equipment	2,881,097	1,280,103
Internally restricted reserves (note 8)	4,050,000	4,700,000
Unrestricted	1,330,503	859,459
	8,261,600	6,839,562
	$ 22,197,573	$ 18,977,237

Commitment (note 9)

Approved on behalf of Council

Member

Member

See notes to financial statements

INSURANCE COUNCIL OF BRITISH COLUMBIA
Statement of Operations
Year Ended May 31

	2023	2022
Revenue		
Annual licence fees	$ 10,902,900	$ 8,078,550
Council fees - first and re-applications	2,085,100	1,557,600
Council fees - Insurers	945,000	428,000
Continuing education fees	819,600	158,600
Interest and dividend income	301,489	221,305
Examination fees	116,800	96,875
Investigation costs recovery	30,423	19,608
Accreditation fees	26,100	-
Fines	19,500	43,400
Hearing costs recovery	16,731	30,339
Other	1,875	28,596
	15,265,518	10,662,873
Expenditures		
Amortization	602,998	473,895
Data processing and information system maintenance	753,916	613,069
Equipment rentals and service	6,803	7,069
Hearings	260,169	339,338
Insurance	40,979	28,067
Loss on write-off of property and equipment	3,711	40,310
Maintenance	13,205	10,579
Meetings	165,120	149,878
Minor furniture and equipment	353	2,799
Office and miscellaneous	113,268	146,730
Professional fees	1,303,272	497,718
Public relations	18,840	13,046
Qualifying examinations	34,633	35,445
Rent	981,502	1,195,259
Salaries and benefits	8,874,665	6,982,506
Service fees	398,555	335,862
Stationery, printing and supplies	16,351	7,128
Telephone	32,103	27,612
Training	115,006	101,262
Travel	36,864	1,804
	13,772,313	11,009,376
Excess (deficiency) of revenue over expenditures before other item	1,493,205	(346,503)
Other item		
Fair market value change on investments	(71,167)	(568,728)
Excess (deficiency) of revenue over expenditures for year	$ 1,422,038	$ (915,231)

See notes to financial statements

INSURANCE COUNCIL OF BRITISH COLUMBIA
Statement of Changes in Net Assets
Year Ended May 31

	Investment in property and equipment	Internally restricted reserves (note 8)	Unrestricted	Total 2023	Total 2022
Balance, beginning of year	$ 1,280,103	$ 4,700,000	$ 859,459	$ 6,839,562	$ 7,754,793
Excess (deficiency) of revenue over expenditures	-	-	1,422,038	1,422,038	(915,231)
Amortization of property and equipment	(602,998)	-	602,998	-	-
Purchase of property and equipment	2,207,703	-	(2,207,703)	-	-
Write-off of property and equipment	(3,711)	-	3,711	-	-
Interfund transfers (note 8)	-	(650,000)	650,000	-	-
Balance, end of year	$ 2,881,097	$ 4,050,000	$ 1,330,503	$ 8,261,600	$ 6,839,562

See notes to financial statements

INSURANCE COUNCIL OF BRITISH COLUMBIA
Statement of Cash Flows
Year Ended May 31

	2023	2022
Operating activities		
Excess (deficiency) of revenue over expenditures	$ 1,422,038	$ (915,231)
Items not involving cash		
Amortization	602,998	473,895
Amortization of tenant inducement	-	(45,544)
Loss on write-off of property and equipment	3,711	40,310
Accrued interest	(23,300)	(12,659)
Fair market value change on investments	71,167	568,728
	2,076,614	109,499
Changes in non-cash working capital		
Receivables	(48,112)	28,697
Prepaid expenses	(35,601)	(29,288)
Deposits on furniture and equipment	322,332	(322,332)
Accounts payable and accrued liabilities	104,433	184,737
Pending application fees	95,425	(18,985)
Deferred licensing revenue	1,598,440	2,807,425
	2,036,917	2,650,254
Cash provided by operating activities	4,113,531	2,759,753
Investing activities		
Purchase of investments	(1,680,433)	(4,220,825)
Purchase of property and equipment	(2,207,703)	(563,061)
Cash used in investing activities	(3,888,136)	(4,783,886)
Increase (Decrease) in cash during the year	225,395	(2,024,133)
Cash, beginning of year	4,877,674	6,901,807
Cash, end of year	$ 5,103,069	$ 4,877,674

See notes to financial statements

1. NATURE OF OPERATIONS

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.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Council have been prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNPO") and include the following significant accounting policies:

(a) Net assets

Net assets of the Council are classified as follows:

(i) Investment in property and equipment

These are funds that have been used for purchases of property and equipment and therefore not available for other purposes.

(ii) Leasehold improvement reserve

The Voting Members of Council have approved internally restricted funds for the purpose of future leasehold improvements.

(iii) Operating reserve

The Voting Members of Council have approved internally restricted funds to cover unanticipated expenses related to discipline cases and general operating costs.

(iv) IT reserve

The Voting Members of Council have approved internally restricted funds for future major IT projects.

(v) Unrestricted

Net assets available for general operations of the Council with no restrictions.

2. SIGNIFICANT ACCOUNTING POLICIES — continued

(b) Revenue recognition

The Council follows the deferral method of accounting whereby revenues are recognized as follows:

Annual license fees are recognized over the term of the license period. Amounts related to the subsequent fiscal year and received in the current fiscal year are recorded as deferred licensing revenue.

Accreditation fees are recognized when the application is processed.

Council fees – First and re-applications are recognized when the application is processed or when the applicant decides to not proceed with the application and forfeits the fee. Application fees collected during the fiscal year that have not been processed as at fiscal year end are considered as pending application fees.

Council fees – Insurers are recognized when collection is reasonably assured.

Continuing education fees are recognized when the registrants complete the online courses or when the 30-day access period expires.

Examination fee revenue is recognized when the exam is written.

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

Interest income is recognized as earned based on the passage of time at the stated interest rate. Dividend income from various investments is recognized as earned.

(c) 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:

Computer hardware	5 years
Furniture and equipment	5-10 years
Leasehold improvements	life of the lease
Major computer software systems	5 years
Minor computer software systems	2 years

Construction in progress represents leasehold improvement not yet complete. Major computer software systems under development is recorded at cost.

Amortization will commence for the leasehold improvement and major computer software systems when available for use.

2. SIGNIFICANT ACCOUNTING POLICIES — continued

(d) 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.

(e) 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.

For any financial instrument that is measured at amortized cost, the instrument’s cost is adjusted by the transaction costs that are directly attributable to their origination, issuance, or assumption.

Financial assets measured at amortized cost include cash and receivables.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities and pending application fees.

(f) Use of estimates

The preparation of these financial statements in conformity with ASNPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent asset and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates include useful lives of the property and equipment and completeness of accounts payable and accrued liabilities. While management believes these estimates are reasonable, actual results could differ from the estimates and could impact future results of operations and cash flows.

3. FINANCIAL INSTRUMENTS

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, 2023. 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 mitigates 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 as deposits are only insured up to $100,000.

(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. The interest rates and terms of cash and investments are disclosed in Notes 4 and 5. The Council mitigates its exposure to interest risk by investing in guaranteed investment certificates in varying terms and maturity dates.

(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 mitigates the risk by maintaining adequate levels of working capital and prepares cash flow forecasts to ensure all its obligations can be met when they fall due.

4. CASH

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

5. INVESTMENTS

Investments held by the Council consist of guaranteed investment certificates ("GICs") with effective interest rates of 1.65% to 5.00% (2022 - 1.65% to 2.65%) maturing from November 20, 2023 to May 31, 2024 (2022 - August 23, 2022 to April 29, 2024), and mutual funds with no maturity date and no restrictions. They are placed in various high credit quality financial institutions in accordance with the Council's investment policy.

	2023	2022
Exchange-traded fund	$ -	$ 1,257,230
Mutual funds	9,685,779	5,565,869
Short-term GICs	4,168,446	5,021,245
	13,854,225	11,844,344
Long-term GICs	-	400,615
	$ 13,854,225	$ 12,244,959

The Council's investments in GICs are reinvested upon maturity at the interest rates available at the time; any distributions received from mutual funds, and exchange-traded fund are also reinvested. As a result, fluctuation in interest rates on such investments will affect investment income earned and the fair market value of the investments.

The cost of the investments at year end is $14,564,818 (2022 - $12,875,309).

6. PROPERTY AND EQUIPMENT

	2023			2022
	Cost	Accumulated amortization	Net	Net
Computer hardware	$ 326,247	$ 142,133	$ 184,114	$ 170,021
Construction in progress	7,950	-	7,950	149,294
Furniture and equipment	861,188	64,668	796,520	7,044
Leasehold improvements	1,132,651	215,543	917,108	-
Major computer software systems	2,844,524	1,875,553	968,971	953,744
Minor computer software systems	7,918	1,484	6,434	-
	$ 5,180,478	$ 2,299,381	$ 2,881,097	$ 1,280,103

During the fiscal year, construction in progress of $149,294 was transferred to leasehold improvements as the construction was completed during the year.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2023	2022
Accounts payable and accrued liabilities	$ 503,454	$ 398,725
Accrued vacation	187,158	237,954
Government fees payable	841,450	791,325
Salaries payable	3,501	3,126
	$ 1,535,563	$ 1,431,130

Included in accounts payable and accrued liabilities are government remittances payable of $87,191 (2022 - $78,422).

8. INTERNALLY RESTRICTED RESERVES

	Leasehold improvement reserve	Operating reserve	IT reserve	Total
Balance, beginning of year	$ 1,700,000	$ 1,500,000	$ 1,500,000	$ 4,700,000
Interfund transfers from (to) unrestricted fund	(1,700,000)	500,000	550,000	(650,000)
Balance, end of year	$ -	$ 2,000,000	$ 2,050,000	$ 4,050,000

9. COMMITMENT

The Council has an operating lease with respect to its current office premises until September 28, 2025. 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 Council's future minimum base rent payments required in respect of the rented premises for the next three fiscal years are approximately as follows:

Fiscal year	Base rent payment
2024	$ 588,595
2025	588,595
2026	196,198
	$ 1,373,388

10. SICK LEAVE

Council's employees have total sick time accrued of 2,061 (2022 - 1,598) days, with an estimated total value of $1,144,507 (2022 - $836,663). The accrued sick time is payable in the event of a valid illness that requires absence from work. The likelihood of this sick time being paid is uncertain; therefore, it has not been accrued.

11. DEFINED CONTRIBUTION RETIREMENT PLAN

Council maintains a defined contribution Group RRSP plan for its employees. During the year, the Council paid $339,278 (2022 - $245,979) for employer contributions to the plan.