

INSURANCE COUNCIL OF BRITISH COLUMBIA

**Financial Statements
May 31, 2021**

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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, 2021;
- ♦ 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, 2021, and its results of 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 14, 2021

INSURANCE COUNCIL OF BRITISH COLUMBIA
Statement of Financial Position
May 31

	2021	2020
Assets		
Current		
Cash (note 4)	\$ 6,901,807	\$ 10,608,663
Short-term investments (note 5)	8,192,247	3,072,065
Receivables	76,368	31,910
Prepaid expenses	162,551	139,915
	15,332,973	13,852,553
Long-term investments (note 5)	400,615	-
Property and equipment (note 6)	1,231,247	1,282,816
	\$ 16,964,835	\$ 15,135,369
Liabilities		
Current		
Accounts payable and accrued liabilities (note 7)	\$ 1,246,393	\$ 1,042,460
Pending application fees	131,710	78,653
Deferred licensing revenue	7,786,395	7,273,950
Tenant inducement - current portion	45,544	45,766
	9,210,042	8,440,829
Tenant inducement	-	45,544
	9,210,042	8,486,373
Net assets		
Investment in property and equipment	1,185,703	1,191,506
Internally restricted reserves (note 8)	6,040,000	-
Unrestricted	529,090	5,457,490
	7,754,793	6,648,996
	\$ 16,964,835	\$ 15,135,369

Commitments (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

	2021	2020
Revenue		
Council fees - Licensees	\$ 7,604,700	\$ 7,299,800
Council fees - First and re-applications	1,390,000	1,199,400
Council fees - Insurers	436,000	448,000
Examination fees	415,295	381,400
Interest and dividend income	159,252	166,395
Fines	87,500	107,000
Hearing costs recovery	30,350	21,805
Investigation costs recovery	17,306	15,981
Other	4,935	14,300
	10,145,338	9,654,081
Expenses		
Amortization	617,311	558,422
Contingency	-	3,825
Data processing and information system maintenance	610,899	549,852
Equipment rentals and service	8,397	7,868
Hearings	279,978	272,698
Insurance	25,197	23,076
Loss on disposal of property and equipment	5,563	1,528
Maintenance	7,299	16,570
Meetings	83,971	139,430
Minor furniture and equipment	592	3,620
Office and miscellaneous	66,374	56,916
Postage and delivery	387	19,488
Professional fees	311,040	255,097
Public relations	6,213	18,078
Qualifying examinations	240,522	95,638
Rent	590,514	611,127
Salaries and benefits	5,712,030	4,454,573
Service fees	252,292	208,743
Stationery, printing and supplies	10,863	26,868
Telephone	34,120	38,613
Training	85,438	47,340
Travel	378	21,535
	8,949,378	7,430,905
Excess of revenue over expenses before other item	1,195,960	2,223,176
Other item		
Unrealized loss on investments	90,163	-
Excess of revenue over expenses for year	\$ 1,105,797	\$ 2,223,176

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 2021	Total 2020
Balance, beginning of year	\$ 1,191,506	\$ -	\$ 5,457,490	\$ 6,648,996	\$ 4,425,820
Excess of revenue over expenses	-	-	1,105,797	1,105,797	2,223,176
Amortization of property and equipment	(617,311)	-	617,311	-	-
Purchase of property and equipment	571,955	-	(571,955)	-	-
Amortization of tenant inducement	45,766	-	(45,766)	-	-
Disposal of property and equipment	(6,213)	-	6,213	-	-
Interfund transfers	-	6,040,000	(6,040,000)	-	-
Balance, end of year	\$ 1,185,703	\$ 6,040,000	\$ 529,090	\$ 7,754,793	\$ 6,648,996

See notes to financial statements

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

	2021	2020
Operating activities		
Excess of revenue over expenses	\$ 1,105,797	\$ 2,223,176
Items not involving cash		
Amortization	617,311	558,422
Amortization of tenant inducement	(45,766)	(45,766)
Loss on disposal of property and equipment	5,563	1,528
Accrued interest	(21,123)	-
Unrealized loss on investments	90,163	-
	1,751,945	2,737,360
Changes in non-cash working capital		
Receivables	(23,335)	15,756
Prepaid expenses	(22,636)	1,309
Accounts payable and accrued liabilities	203,933	(227,353)
Pending application fees	53,057	(82,637)
Deferred licensing revenue	512,445	517,086
	723,464	224,161
Cash provided by operating activities	2,475,409	2,961,521
Investing activities		
Purchase of investments	(5,610,960)	(1,060,019)
Proceeds on disposal of property and equipment	650	-
Purchase of property and equipment	(571,955)	(438,364)
Cash used in investing activities	(6,182,265)	(1,498,383)
(Decrease) Increase in cash during the year	(3,706,856)	1,463,138
Cash, beginning of year	10,608,663	9,145,525
Cash, end of year	\$ 6,901,807	\$ 10,608,663

See notes to financial statements

INSURANCE COUNCIL OF BRITISH COLUMBIA

Notes to Financial Statements

Year Ended May 31, 2021

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, IT projects and general operating costs.

(iv) Unrestricted

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

INSURANCE COUNCIL OF BRITISH COLUMBIA

Notes to Financial Statements

Year Ended May 31, 2021

2. SIGNIFICANT ACCOUNTING POLICIES — continued

(b) Revenue recognition

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

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 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.

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

Examination 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:

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

Amortization of leasehold improvements is recorded over the remaining term of the lease.

(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) 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.

INSURANCE COUNCIL OF BRITISH COLUMBIA
Notes to Financial Statements
Year Ended May 31, 2021

2. SIGNIFICANT ACCOUNTING POLICIES — continued

(f) 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.

(g) 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, 2021. 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 and 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 bond funds and 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.

INSURANCE COUNCIL OF BRITISH COLUMBIA

Notes to Financial Statements

Year Ended May 31, 2021

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 rate of 1.65% (2020 - 1.40% to 2.65%) maturing on April 29, 2024 (2020 - between October 29, 2020 to May 26, 2021), mutual funds, and a bond fund 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.

	2021	2020
Mutual funds	\$ 7,378,708	\$ -
Bond fund	813,539	-
Short-term GICs	-	3,072,065
	8,192,247	3,072,065
Long-term GICs	400,615	-
	\$ 8,592,862	\$ 3,072,065

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 bond funds 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.

6. PROPERTY AND EQUIPMENT

	2021		2020	
	Cost	Accumulated amortization	Net	Net
Furniture and equipment	\$ 238,431	\$ 198,397	\$ 40,034	\$ 52,425
Leasehold improvements	1,265,787	1,080,883	184,904	369,647
Computer hardware	260,311	95,402	164,909	126,941
Minor computer software	115,994	115,994	-	9,294
Major computer software systems	2,221,255	1,379,855	841,400	724,509
	\$ 4,101,778	\$ 2,870,531	\$ 1,231,247	\$ 1,282,816

INSURANCE COUNCIL OF BRITISH COLUMBIA
Notes to Financial Statements
Year Ended May 31, 2021

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2021	2020
Accounts payable and accrued liabilities	\$ 318,600	\$ 204,037
Accrued vacation	214,044	139,777
Government fees payable	711,250	695,650
Salaries payable	2,499	2,996
	\$ 1,246,393	\$ 1,042,460

Included in accounts payable and accrued liabilities are government remittances payable of \$64,575 (2020 - \$47,000).

8. INTERNALLY RESTRICTED RESERVES

	Leasehold improvement reserve	Operating reserve	Total
Balance, beginning of year	\$ -	\$ -	-
Interfund transfers from unrestricted fund	3,200,000	2,840,000	6,040,000
Balance, end of year	\$ 3,200,000	\$ 2,840,000	\$ 6,040,000

9. COMMITMENTS

Council has an operating lease with respect to its current 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 for fiscal 2022 amounts to \$362,297.

10. SICK LEAVE

Council's employees have total sick time accrued of 1,439 days, with an estimated total value of \$683,601. 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 \$203,897 (2020 - \$158,840) for employer contributions to the plan.

12. SUBSEQUENT EVENT

Subsequent to year end, the Council entered a lease agreement for a new office premise. The lease will be for the period from November 1, 2021 to September 30, 2025 for an annual base rent of \$588,595 plus its proportionate share of operating costs and property taxes.

INSURANCE COUNCIL OF BRITISH COLUMBIA
Notes to Financial Statements
Year Ended May 31, 2021

13. IMPACT OF COVID-19

The outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility. The duration and impact of the COVID-19 outbreak is unknown at this time. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Council in future periods.

14. COMPARATIVE FIGURES

Certain comparative figures were reclassified to conform to the presentation adopted in the current year.