# 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**

**Contents**


| | |
|---|---|
| **Independent Auditor's Report** | **2 - 3** |
| **Financial Statements** | |
| Statement of Financial Position | **4** |
| Statement of Operations | **5** |
| Statement of Changes in Net Assets | **6** |
| Statement of Cash Flows | **7** |
| Notes to the Financial Statements | **8 - 14** |

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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.

BDO Canada LLP, a Canadian limited liability partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

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.

*BDO Canada LLP*

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 |
| | **10,946,295** | 8,732,272 |
| **Long-term investments** (Note 3) | **400,166** | - |
| **Property and equipment** (Note 4) | **1,404,402** | 1,398,033 |
| | **$ 12,750,863** | $ 10,130,305 |
| **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 |
| | **8,233,733** | 6,780,462 |
| **Tenant inducement** | **91,310** | 137,076 |
| | **8,325,043** | 6,917,538 |
| **Net Assets** | | |
| Investment in property and equipment | **1,267,326** | 1,215,191 |
| Unrestricted | **3,158,494** | 1,997,576 |
| | **4,425,820** | 3,212,767 |
| | **$ 12,750,863** | $ 10,130,305 |

Approved on behalf of Council:

Member

Member

The accompanying notes are an integral part of these financial statements.

# 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) |

The accompanying notes are an integral part of these financial statements.

# 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 |

The accompanying notes are an integral part of these financial statements.

# 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 |
| | **1,623,050** | (752,625) |
| 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 |
| | **2,996,568** | 1,322,891 |
| **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) |
| | **(1,571,145)** | 1,322,933 |
| **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 |

The accompanying notes are an integral part of these financial statements.

## 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.

**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 - Licencees 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.

**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.

## 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 |
| | | | $ 1,611,880 |

**2019 Long-term Investments**

| | Interest Rate | Maturity Date | |
|---|---|---|---|
| Guaranteed Investment Certificates | 2.60-2.65% | 05/25/2021 | $ 400,166 |

**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 |
| | | | $ 903,033 |

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.

## 4. Property and Equipment

| | Cost | Accumulated Amortization | 2019 Net Book Value | 2018 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 |

## 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 | 362,297 |
| | $ 1,086,891 |

## 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.

**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.