Smythe CPA

INSURANCE COUNCIL OF BRITISH COLUMBIA

Financial Statements
May 31, 2020

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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, 2020;
- 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, 2020, 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.

Other Matter

The financial statements of the Council for the year ended May 31, 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on August 27, 2019.

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
August 25, 2020

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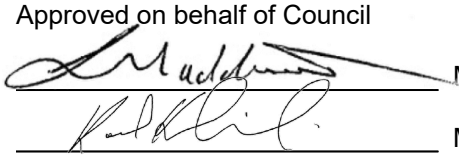
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INSURANCE COUNCIL OF BRITISH COLUMBIA
Statement of Financial Position
May 31

	2020	2019
Assets		
Current		
Cash (note 4)	$ 10,608,663	$ 9,145,525
Short term investments (note 5)	3,072,065	1,611,880
Receivables	31,910	47,666
Prepaid expenses	139,915	141,224
	13,852,553	10,946,295
Long-term investments (note 5)	-	400,166
Property and equipment (note 6)	1,282,816	1,404,402
	$ 15,135,369	$ 12,750,863
Liabilities		
Current		
Accounts payable and accrued liabilities (note 7)	$ 1,042,460	$ 1,269,813
Pending application fees	78,653	161,290
Deferred licensing revenue	7,273,950	6,756,864
Tenant inducement - current portion	45,766	45,766
	8,440,829	8,233,733
Tenant inducement	45,544	91,310
	8,486,373	8,325,043
Net assets		
Investment in property and equipment	1,191,506	1,267,326
Unrestricted	5,457,490	3,158,494
	6,648,996	4,425,820
	$ 15,135,369	$ 12,750,863

Commitments (note 8)

Approved on behalf of Council



Member

Member

See notes to financial statements

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

	2020	2019
Revenue		
Council fees - Licensees	$ 7,299,800	$ 5,833,705
Council fees - First and re-applications	1,199,400	1,179,090
Council fees - Insurers	448,000	452,000
Examination fees	381,400	354,100
Interest	166,395	87,724
Fines	107,000	81,000
Hearing costs recovery	21,805	19,596
Investigation costs recovery	15,981	20,593
Other	14,300	19,159
	9,654,081	8,046,967
Expenses		
Amortization	558,422	437,887
Contingency	3,825	-
Data processing and information system maintenance	549,852	535,244
Equipment rentals and service	7,868	12,816
Hearings	272,698	590,953
Insurance	23,076	3,033
Loss on disposal of property and equipment	1,528	17,876
Maintenance	16,570	17,856
Meetings	139,430	131,840
Minor furniture and equipment	3,620	7,968
Office and miscellaneous	67,115	61,048
Postage and delivery	19,488	31,069
Professional fees	255,097	233,445
Public relations	18,078	9,367
Qualifying examinations	95,638	125,904
Rent	611,127	614,991
Salaries and benefits	4,444,374	3,724,494
Service fees	208,743	150,495
Stationery, printing and supplies	26,868	22,697
Telephone	38,613	34,356
Training	47,340	28,813
Travel	21,535	41,762
	7,430,905	6,833,914
Excess of revenue over expenses for year	$ 2,223,176	$ 1,213,053

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	Unrestricted	Total 2020	Total 2019
Balance, beginning of year	$ 1,267,326	$ 3,158,494	$ 4,425,820	$ 3,212,767
Excess of revenue over expenses	-	2,223,176	2,223,176	1,213,053
Amortization of property and equipment	(558,422)	558,422	-	-
Purchase of property and equipment	438,364	(438,364)	-	-
Amortization of tenant inducement	45,766	(45,766)	-	-
Loss on disposal of property and equipment	(1,528)	1,528	-	-
Balance, end of year	$ 1,191,506	$ 5,457,490	$ 6,648,996	$ 4,425,820

See notes to financial statements

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

	2020	2019
Operating activities		
Excess of revenue over expenses	$ 2,223,176	$ 1,213,053
Items not involving cash		
Amortization	558,422	437,887
Amortization of tenant inducement	(45,766)	(45,766)
Loss on disposal of property and equipment	1,528	17,876
	2,737,360	1,623,050
Changes in non-cash working capital		
Receivables	15,756	17,531
Prepaid expenses	1,309	(97,284)
Accounts payable and accrued liabilities	(227,353)	274,278
Pending application fees	(82,637)	(6,758)
Deferred licensing revenue	517,086	1,185,751
	224,161	1,373,518
Cash provided by operating activities	2,961,521	2,996,568
Investing activities		
Purchase of investments	(1,060,019)	(2,012,046)
Disposal of investments	-	903,033
Purchase of property and equipment	(438,364)	(462,132)
Cash used in investing activities	(1,498,383)	(1,571,145)
Increase in cash during the year	1,463,138	1,425,423
Cash, beginning of year	9,145,525	7,720,102
Cash, end of year	$ 10,608,663	$ 9,145,525

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) 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 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 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.

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

2. SIGNIFICANT ACCOUNTING POLICIES — continued

(b) 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.

(c) 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.

(d) 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.

(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. 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.

2. SIGNIFICANT ACCOUNTING POLICIES — continued

(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, 2020. 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.

(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 4 and 5. 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.

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 ranging from 1.40% to 2.65% (2019 - 2.35% to 3.00%) maturing between October 29, 2020 to May 26, 2021 (2019 - October 25, 2019 to May 25, 2021). They are placed in various high credit quality financial institutions in accordance with the Council's investment policy.

	2020	2019
Short term GICs	$ 3,072,065	$ 1,611,880
Long term GICs	-	400,166
	$ 3,072,065	$ 2,012,046

The Council's investments are reinvested upon maturity at the 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.

6. PROPERTY AND EQUIPMENT

	2020			2019
	Cost	Accumulated amortization	Net	Net
Furniture and equipment	$ 238,431	$ 186,006	$ 52,425	$ 55,552
Leasehold improvements	1,265,787	896,140	369,647	550,968
Computer hardware	383,751	256,810	126,941	71,999
Minor computer software	115,994	106,700	9,294	40,888
Major computer software systems	1,744,568	1,020,059	724,509	684,995
	$ 3,748,531	$ 2,465,715	$ 1,282,816	$ 1,404,402

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2020	2019
Accounts payable and accrued liabilities	$ 204,037	$ 389,939
Accrued vacation	139,777	97,646
Government fees payable	695,650	771,136
Salaries payable	2,996	11,092
	$ 1,042,460	$ 1,269,813

Included in accounts payable and accrued liabilities are government remittances payable of $47,000 (2019 - $29,191).

8. 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 in the next two fiscal years are as follows:

2021	$	362,297
2022		362,297
	$	724,594

9. DEFINED CONTRIBUTION RETIREMENT PLAN

Council maintains a defined contribution Group RRSP plan for its employees. During the year, the Council paid $158,840 (2019 - $141,103) for employer contributions to the plan.

10. RELATED PARTY TRANSACTIONS

During the year, $nil (2019 - $8,750) 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.

11. 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 and weakness. 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.

12. COMPARATIVE FIGURES

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