

Insurance Council of British Columbia
Financial Statements
For the year ended May 31, 2016

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For the year ended May 31, 2016

Contents

Independent Auditor's Report	2
Financial Statements	
Statement of Financial Position	3
Statement of Operations	4
Statement of Changes in Net Assets	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 12
Schedule of Revenue	13



Tel: 604 688 5421
Fax: 604 688 5132
vancouver@bdo.ca
www.bdo.ca

BDO Canada LLP
600 Cathedral Place
925 West Georgia Street
Vancouver BC V6C 3L2 Canada

Independent Auditor's Report

To the Members of the Insurance Council of British Columbia

We have audited the accompanying financial statements of the Insurance Council of British Columbia, which comprise the Statement of Financial Position as at May 31, 2016, and the Statements of Operations, Changes in Net Assets and Cash Flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Insurance Council of British Columbia as at May 31, 2016 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.

BDO Canada LLP

Chartered Professional Accountants

Vancouver, British Columbia
September 13, 2016

Insurance Council of British Columbia
Statement of Financial Position

May 31 **2016** **2015**

Assets

Current

Cash (Note 2)	\$ 5,305,138	\$ 5,223,860
Short-term investments (Note 3)	1,060,185	1,451,113
Accounts receivable	30,818	76,373
Prepaid expenses	48,586	65,704
	6,444,727	6,817,050
Long-term investments (Note 3)	1,572,255	2,072,797
Property and equipment (Note 4)	2,118,846	899,254
	\$ 10,135,828	\$ 9,789,101

Liabilities and Net Assets

Liabilities

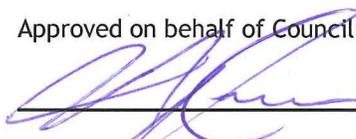
Current

Accounts payable and accrued liabilities (Note 5)	\$ 1,160,743	\$ 954,084
Pending application fees	167,837	189,177
Deferred council licensing revenue	2,967,895	2,786,825
Tenant inducement - current portion	45,766	37,896
	4,342,241	3,967,982
Tenant inducement	228,830	227,374
	4,571,071	4,195,356

Net Assets

Investment in property and equipment	1,844,250	633,984
Unrestricted	3,720,507	4,959,761
	5,564,757	5,593,745
	\$ 10,135,828	\$ 9,789,101

Approved on behalf of Council:


_____ Member


_____ Member

Insurance Council of British Columbia
Statement of Operations

For the year ended May 31	2016	2015
Revenue (Schedule)	<u>\$ 5,394,179</u>	<u>\$ 4,873,532</u>
Expenses		
Advertising	8,526	5,433
Amortization	198,381	174,679
Data processing and information system maintenance	198,130	184,053
Data processing system planning costs	31,140	207,322
Equipment rentals and service	9,147	9,322
Hearings	167,734	143,028
Insurance	19,711	17,514
Maintenance	10,252	7,402
Meetings	193,840	160,849
Office and miscellaneous	87,865	76,156
Postage and delivery	44,834	43,033
Professional fees	414,323	365,208
Public relations	13,564	-
Qualifying examinations	299,720	186,393
Rent	542,470	490,293
Salaries and benefits	3,024,353	2,853,921
Stationery, printing and supplies	46,720	43,766
Telephone	29,067	24,970
Training	13,537	9,548
Travel	69,853	57,276
	<u>5,423,167</u>	<u>5,060,166</u>
Deficiency of revenue over expenses	<u>\$ (28,988)</u>	<u>\$ (186,634)</u>

Insurance Council of British Columbia
Statement of Changes in Net Assets

For the year ended May 31

	Investment in Property and Equipment	Unrestricted	2016	2015
Balance, beginning of year	\$ 633,984	\$ 4,959,761	\$ 5,593,745	\$ 5,780,379
Excess (deficiency) of revenue over expenses for the year	-	(28,988)	(28,988)	(186,634)
Amortization of property and equipment	(198,381)	198,381	-	-
Purchase of property and equipment	1,417,973	(1,417,973)	-	-
Tenant inducement	(52,542)	52,542	-	-
Amortization of tenant inducement	43,216	(43,216)	-	-
Balance, end of year	\$ 1,844,250	\$ 3,720,507	\$ 5,564,757	\$ 5,593,745

Insurance Council of British Columbia
Statement of Cash Flows

For the year ended May 31 **2016** **2015**

Cash provided by (used in)

Operating activities

Deficiency of revenue over expenses for the year	\$ (28,988)	\$ (186,634)
Items not involving cash		
Amortization	198,381	174,679
Amortization of tenant inducement	(43,216)	(37,896)
	126,177	(49,851)
Changes in non-cash operating working capital		
Accounts receivable	45,555	(17,755)
Prepaid expenses	17,118	(19,939)
Accounts payable and accrued liabilities	206,659	133,137
Pending application fees	(21,340)	51,009
Deferred council licensing revenue	181,070	(34,200)
	555,239	62,401

Investing activities

Proceeds from maturity of investments	891,470	782,651
Purchase of property and equipment	(1,417,973)	(30,227)
Tenant inducement received	52,542	-
	(473,961)	752,424

Increase in cash during the year

81,278 **814,825**

Cash, beginning of year

5,223,860 **4,409,035**

Cash, end of year

\$ 5,305,138 **\$ 5,223,860**

Insurance Council of British Columbia
Notes to the Financial Statements

May 31, 2016

1. Significant Accounting Policies

(a) Purpose

The Insurance Council of British Columbia ("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*. 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, Council investigates complaints and determines any required disciplinary action.

As well as making licensing fee assessments against licensees and insurers to fund its expenses, Council collects other fees prescribed under the Act on behalf of the provincial government.

(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, 2016

1. Significant Accounting Policies (Continued)

(d) Revenue Recognition

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 Council.

Revenue (Council fees - Licensees) is recognized over the term of the license period.

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) is recognized at the time the assessment is charged to the insurer.

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

Fines revenue and recoverable investigation costs, which are included in interest and other revenue, are recognized 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 lease term.

(f) Employee Future Benefits

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

Insurance Council of British Columbia
Notes to the Financial Statements

May 31, 2016

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.

(h) Tenant Inducement

Tenant inducement represents funds received upon the signing a 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. 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 in the form of term deposits.

Short-term investments represent investments maturing in less than one year. The interest earned on these investments ranges from 1.43% to 1.85%.

Long-term investments represent two to three year term investments, none of which holds more than 22% (2015 - 34%) of the total invested. The weighted average term to maturity is 717 days (2015 - 749 days). The weighted average effective interest rate is 0.94% (2015 - 1.38%).

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.

Insurance Council of British Columbia
Notes to the Financial Statements

May 31, 2016

4. Property and Equipment

	<u>2016</u>		<u>2015</u>	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and equipment	\$ 279,693	\$ 185,855	\$ 93,838	\$ 108,661
Leasehold improvements	1,023,544	371,278	652,266	656,754
Computer hardware	372,588	246,243	126,345	133,406
Minor computer software	104,654	66,082	38,572	433
Major computer software systems	<u>1,207,825</u>	-	<u>1,207,825</u>	-
	<u>\$ 2,988,304</u>	<u>\$ 869,458</u>	<u>\$ 2,118,846</u>	<u>\$ 899,254</u>

During the year, the Council spent \$1,207,825 on software design, implementation, and integration to replace the Council's existing license management system software. No amortization was taken on this addition as the software system was not ready for use until after the year end.

5. Accounts Payable and Accrued Liabilities

	<u>2016</u>		<u>2015</u>	
Accrued liabilities - operations	\$ 73,746	\$ 68,893		
Accrued liabilities - capital projects	170,245	-		
Accrued vacation	80,270	90,332		
Accrued retirement allowance	137,500	114,584		
Salaries payable	42,817	15,327		
Other accounts payable	1,615	2,373		
Government fees payable	<u>654,550</u>	<u>662,575</u>		
	<u>\$ 1,160,743</u>	<u>\$ 954,084</u>		

Insurance Council of British Columbia
Notes to the Financial Statements

May 31, 2016

6. Commitments

Council has an operating lease with respect to its office premises until May 31, 2022. During the year, Council amended the operating lease to include additional square footage for the purpose of examinations. 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:

2017	\$ 338,923
2018	362,297
2019	362,297
2020	362,297
2021	362,297
Thereafter	<u>362,297</u>
	<u>\$ 2,150,408</u>

7. Pension Plan

Council maintains a defined contribution pension plan for its employees. During the year, the Council paid \$102,783 (2015 - \$100,712) for employer contributions to the plan.

Insurance Council of British Columbia
Notes to the Financial Statements

May 31, 2016

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, 2016. 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 and accounts receivable. The Council limits its exposure to credit risk by placing its cash and investments with various high credit quality financial institutions and life insurers, in accordance with investment policies adopted by the Board of Directors. As mentioned in Note 3, there is no term deposit which holds more than 22% (2015 - 34%) of the total invested with one life insurer.

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 2 and 3. The Council limits its exposure by diversifying the investments in fixed term deposits.

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 to ensure all its obligations can be met when they fall due.

9. Related Party Transactions

During the year, \$68,250 (2015 - \$52,400) 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.

Insurance Council of British Columbia
Schedule of Revenue

For the year ended May 31 2016 2015

Revenue

Council fees - Licensees	\$ 3,094,423	\$ 2,976,937
Council fees - First and re-applications	1,235,865	955,745
Council fees - Insurers	458,000	466,000
Examination fees	376,725	263,125
Interest	54,336	76,466
Penalties/fines	132,442	104,119
Other	42,388	31,140
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	\$ 5,394,179	\$ 4,873,532
